INVITATION TO COMMENT ON THE EFRAG'S ASSESSMENTS OF IFRIC 15 'AGREEMENTS FOR THE CONSTRUCTION OF REAL ESTATE'

Comments should be sent to commentletter(efrag.org) or uploaded via our website by 22 September 2008

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRIC 15 *Agreements for the Construction of Real Estate* (IFRIC 15). In order to do that, EFRAG has been carrying out a technical assessment of IFRIC 15 against the criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the EU.

A summary of IFRIC 15 is set out in Appendix 1.

Before finalising its two assessments, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

1 Please provide the following details about yourself:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

Prof. Dr. Manfred Bolin, Secretary General

Accounting Standards Committee of Germany

(b) Are you/Is your organisation or company a:

Preparer User Other X

Standard Setter

(c) Please provide a short description of your activity/ the general activity of your organisation or company:

German Standard Setter

(d) Country where you/your organisation or company is located:

Germany

(e) Contact details including e-mail address:

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2 EFRAG's initial assessment of IFRIC 15 is that it meets the technical criteria for endorsement. In other words, it is not contrary to the true and fair principle and it meets the criteria of understandability, relevance, reliability and comparability. EFRAG's reasoning is set out in Appendix 2.

(a) Do you agree with this assessment?

X Yes No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of IFRIC 15? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No

3 EFRAG is also assessing the costs that will arise for preparers and for users to implement IFRIC 15, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

The results of the initial assessment are set out in Appendix 3. To summarise, EFRAG's initial assessment (see Appendix 3, paragraph 14) is that IFRIC 15 is:

(a) likely to involve some preparers in some additional year one and ongoing costs. However, EFRAG's initial assessment is that, when considered in aggregate, those costs will not be significant.

(b) likely to involve users in no year one or ongoing incremental costs.

Do you agree with this assessment?

X Yes No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

4 IFRIC 15 is likely to result in improvements in the quality of the information provided. EFRAG's initial assessment is that the benefits to be derived from applying IFRIC 15 will exceed the costs involved (Appendix 3, paragraphs 14— 15).

Do you agree with this assessment?

X Yes No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?

5 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on IFRIC 15.

Do you agree that there are no other factors?

X Yes No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?

APPENDIX 1
ASUMMARYOF IFRIC 15

1 In the real estate industry, entities that undertake the construction of real estate directly or through subcontractors often enter into agreements of various forms with one or more buyers before construction is complete. For example, entities that undertake the construction of residential real estate sometimes start marketing and enter into agreements for the sale of individual units (apartments or houses) "off plan"—in other words, while construction is still in progress or perhaps even before it has begun.

2 In existing IFRS there are two standards that deal with revenue recognition—IAS 11 *Construction Contracts* and IAS 18 *Revenue*—and they can result in very different accounting results. There is uncertainty as to which of these standards should be applied to agreements for the construction of real estate. IFRIC 15 addresses those uncertainties.

3 The Interpretation notes that within a single agreement an entity may contract to deliver goods or services in addition to the construction of real estate (for example, a sale of land or provision of property management services). Therefore, and in accordance with IAS 18, such agreements need to be split into separate components, including one for the construction of real estate, and each component accounted for separately.

4 Then, to account for the construction of the real estate component, the entity should apply the guidance in IFRIC 15 to determine whether that part of the agreement is within the scope of IAS 11 or IAS 18.

(a) IAS 11 applies to agreements that meet the definition of a construction contract ("a contract specifically negotiated for the construction of an asset or a combination of assets ..."). IFRIC 15 specifies that an agreement for the construction of real estate meets the definition of a construction contract only when the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether it exercises that ability or not).

(b) Conversely, an agreement for the construction of real estate in which buyers have only limited ability to influence the design of the real estate (for example, they are able only to select a design from a range of options specified by the entity, or to specify only minor variations to the basic design) is an agreement for the sale of goods within the scope of IAS 18.

5 When the agreement is within the scope of IAS 11 and its outcome can be estimated reliably, the entity shall recognise revenue by reference to the stage of completion of the contract activity. This is often referred to as the percentage of completion (PoC) method. Under this method, revenue is recognised as the work progresses.

6 When the agreement is within the scope of IAS 18, three different situations need to be distinguished:

(a) If the agreement is for the rendering of services, revenue is recognised by reference to the percentage of completion method described in the preceding paragraph.

(b) If the agreement is in effect for the brick-by-brick sale of the real estate, again revenue is recognised by reference to the percentage of completion method described in the preceding paragraph. IFRIC 15 explains that a 'brick-by-brick sale' is involved if the agreement is for the continuous transfer of control and of the significant risk and rewards of ownership of the work in progress in its current state as construction progresses.

(c) If the agreement involves control and the significant risk and rewards of ownership of the real estate being transferred in its entirety at a single point of time, revenue is recognised only when the criteria in IAS 18 for a sale of goods have been met. This is sometimes referred to as 'completed contract accounting'.

APPENDIX 2
EFRAG'S TECHNICAL ASSESSMENT OF IFRIC 15 AGAINST THE ENDORSEMENT CRITERIA

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity as a contributor to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as adviser to the European Commission on endorsement of the final IFRS or Interpretation on the issue.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the European endorsement criteria, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

1 When evaluating IFRIC 15, EFRAG asked itselffour questions:

(a) Is there an issue that needs to be addressed?

(b) If there is an issue that needs to be addressed, is an Interpretation an appropriate way of addressing it?

(c) Is IFRIC 15 a correct interpretation of existing IFRS?

(d) Does the accounting that results from the application of the IFRIC meet the criteria for EU endorsement?

IS THERE AN ISSUE THAT NEEDS TO BE ADDRESSED?

2 EFRAG understands that there are various views on how the term "construction contract" used in IAS 11 should be understood in practice, and that this is resulting in scope uncertainties. EFRAG further understands that example 9 in the appendix to IAS 18 is being interpreted differently. Both uncertainties are resulting in a divergence in practice. EFRAG agrees that this diversity in the way entities account for the same types of transaction is undesirable and is an issue that needs to be addressed.

IS AN INTERPRETATION AN APPROPRIATE WAY OF ADDRESSING IT?

3 As noted above, the diversity in practice results from uncertainties about the term "construction contract" and the meaning of the explanatory comments included in example 9 in the appendix to IAS 18. EFRAG is generally of the view that in cases where an inconsistency in accounting practice is caused by differing interpretations of one or more existing standards it will generally be appropriate to deal with the issue by means of an Interpretation.

4 The IASB and FASB are jointly carrying out a comprehensive review of accounting for revenue and a discussion paper on the subject is due in 2008. EFRAG has considered whether it is premature for IFRIC to be developing guidance on how to account for the revenue arising from agreements for the sale of real estate bearing in mind that a long-term project on revenue is being carried out, and a discussion

paper is imminent. It would, for example, be a particular concern were the Interpretation to require changes in accounting that the longer-term joint project might reverse, because that would place unnecessary burdens on preparers and users.

5 However, EFRAG recognises that the IASB's active agenda covers many aspects of accounting and that, if IFRIC is debarred from issuing Interpretations on all those aspects of accounting, its scope will be severely restricted. EFRAG also notes that it would be several years before the joint IASB/FASB project would result in a standard and, if IFRIC could not act in the meantime, that would mean several years of diversity in accounting practice and a lack of comparability.

6 The Interpretation is amending IAS 18 by deleting one example included in the appendix to that standard, which could be considered to be outside of the remit of an interpretation. However, as the appendix accompanies but is not part of IAS 18, it has not been endorsed for use in the EU so IFRIC 15 is not amending endorsed material. EFRAG further noted that the IASB has to approve IFRIC Interpretations.

7 Having taken the above considerations into account, EFRAG concluded that it was appropriate to resolve the uncertainties described above relating to accounting for real estate construction contracts by issuing an Interpretation.

IS IFRIC 15 A CORRECT INTERPRETATION OF EXISTING IFRS?

8 EFRAG has considered whether IFRIC 15 is a correct interpretation of existing IFRS 15. In EFRAG's view, there were three issues that needed in this context to be considered particularly carefully.

(a) Issue 1—Drawing the line between IAS 11 and IAS 18 for the purposes of agreements for the construction of real estate.

(b) Issue 2—The recognition of revenue arising from agreements for the construction of real estate.

(c) Issue 3—The application of IFRIC 15 by analogy.

Each of these issues is discussed below.

Issue 1—Drawing the line between IAS 11 and IAS 18 for the purposes of agreements for the construction of real estate

9 The interpretation deals with two broad issues. The first issue is whether an agreement to construct real estate is—for revenue recognition purposes—within the scope of IAS 11 (in other words, whether it meets IAS 11's definition of a 'construction contract' or not). The IFRIC noted that such a determination depends on the terms of the agreement and all the surrounding facts and circumstances and requires judgement.

10 Paragraph 3 of IAS 11 defines a construction contract as "a contract specifically negotiated for the construction of an asset or a combination of assets (...)". IFRIC 15 explains that an agreement meets the definition when the buyer is able to specify the major structural elements of the design of the real estate before

construction begins and/or specify major structural changes once construction is in progress (regardless of whether or not the buyer exercises that ability).[1]

11 EFRAG notes that some commentators think IFRIC 15 is not very helpful in practice because, although the guidance IFRIC 15 provides will make it relatively easy to differentiate between extreme cases, in other cases it will often be much more difficult to identify real differences of substance. As a result, uncertainty will remain and that could result in economically similar situations being treated differently. In effect, those commentators think the IFRIC might have replaced one undefined term (IAS 11's "specifically negotiated") with an equally vague term ("major structural elements of design").

12 While EFRAG believes that, despite IFRIC 15, there will remain some uncertainty in some cases, it also believes that, in a principle-based accounting system, judgement will need to be applied and is preferable to bright line rules. EFRAG further believes that whether or not the buyer has the ability—whether exercised or not—to specify the major structural elements of design *is* the appropriate feature when trying to differentiate between agreements for the construction of real estate that should be accounted for under IAS 11 and agreements for the construction of real estate that should be accounted for under IAS 18. EFRAG is therefore of the opinion that the guidance in IFRIC 15 represents a *possib!e* way of operationalising the term "construction contract" in the circumstances of real-estate transactions

Conc!usion

13 EFRAG believes that IFRIC 15 represents a reasonable interpretation of the term 'construction contract', as used by IAS 11.

Issue 2—The recognition of revenue arising from agreements for the construction of real estate

14 IFRIC 15 states that, when the agreement is a construction contract, IAS 11 applies and if the outcome of the contract can be estimated reliably, the entity shall recognise revenue by reference to the stage of completion of the contract activity. EFRAG believes this is a correct interpretation of IAS 11.

15 IFRIC 15 states that, for contracts not falling within the scope of IAS 11, the accounting required by IAS 18 will depend on whether the agreement is an agreement for the rendering of services or an agreement for the sale of goods.

16 IFRIC 15 clarifies that, if the entity is not required to acquire and supply construction materials, the agreement may be only an agreement for the rendering of services. On the other hand, if the entity is required to provide services together with construction materials in order to perform its contractual obligation to deliver the real estate to the buyer, the agreement is for the sale of goods.

17 In case of an agreement for the rendering of services, IFRIC 15 explains that, if and when the outcome of the contract can be estimated reliably (in accordance with the criteria in IAS 18.20), IAS 18 requires revenue to be recognised by the stage of completion of the transaction. The IAS 11 requirements are generally applied to the recognition of revenue.

[1] Hereafter this will sometimes be referred to as „buyer's specifications"

18 If the agreement is for the sale of goods, IFRIC 15 explains that two cases need to be differentiated:

(a) Agreements where the entity transfers to the buyer control and the significant risk and rewards of ownership of the work in progress in its current state as construction progresses (continuous transfer). In this case, if all the criteria in paragraph 14 of IAS 18 are met continuously as construction progresses, the entity shall recognise revenue by reference to the stage of completion using the percentage of completion method.

(b) Agreements where the entity transfers to the buyer control and the significant risk and rewards of ownership of the real estate in its entirety at a single point of time. In this case, the entity shall recognise revenue only when all the criteria in paragraph 14 of IAS are satisfied, e.g. at completion or upon delivery.

19 IFRIC 15 also provides guidance on the accounting to be adopted where the entity is required to perform further work on real estate already delivered to the buyer. It explains that, in such circumstances, the entity shall recognise an expense in accordance with IAS 18.19 and measure the liability in accordance with IAS 37. This situation is distinguished from the situation where the entity is required to deliver further goods or services that are separately identifiable from the real estate already delivered to the buyer, where the remaining goods or services to be delivered are treated as a separate component of the sale.

20 EFRAG believes that the IFRIC 15 guidance summarised in paragraphs 14 and 16-19 above is a correct interpretation of existing IFRS.

21 Some EFRAG members were concerned about structuring possibilities that might arise from the guidance in IFRIC 15 as to how to distinguish an agreement for the rendering of services from an agreement for the sale of goods (ie the guidance summarised in paragraph 15 above). However, the majority of EFRAG members believe that, while this might be the first time explicit guidance has been provided on the subject, it was not the reason for the structuring possibilities; they had existed before. They noted furthermore that EFRAG in general is of the opinion that standards and interpretations should not be drafted with anti-abuse in mind. In their view the IFRIC 15 guidance summarised in paragraph 15 above is a reasonable interpretation of existing I FRS.

22 While all EFRAG members agreed that the continuous transfer model referred to in paragraph 18(a) above was a correct interpretation of the IAS 18, some EFRAG members thought the model was of little practical relevance because agreements for the construction of real estate would rarely if ever qualify for such accounting. The majority of EFRAG members however thought some transactions *wou!d* meet the continuous transfer model requirements. They also noted that, while the concept looked new, it was always implicit in IAS 18.

Conc!usion

23 Having considered the above arguments, EFRAG concluded that this aspect of the consensus is a reasonable interpretation of IAS 11 and IAS 18.

Issue 3—Applying IFRIC 15 by analogy

24 Although the scope of IFRIC 15 is in theory limited to agreements for the construction of real estate, some EFRAG members have doubts as to how effective such a scope limitation can be—or indeed should be—when the text that is being interpreted (IAS 11 's definition of 'a construction contract') is of general applicability. Indeed, the IFRIC makes specific reference in the basis for conclusion (BC6) to the possibility of the guidance in IFRIC 15 being applied by analogy. EFRAG has therefore considered whether applying IFRIC 15 by analogy could result in inappropriate accounting.

25 A piece of IFRS literature should of course only be applied by analogy when it is applicable, and that will be a matter ofjudgement. Some EFRAG members believe there is a possibility that IFRIC 15 will be applied by analogy and, as result, what they consider to be a restrictive interpretation of what IAS 11 means by 'a construction contract' could be applied too broadly. Other EFRAG members were however less concerned about this because application by analogy requires the transactions to be sufficiently similar to real estate transactions and, if the transactions are genuinely similar, there seems no reason to believe applying IFRIC 15 by analogy would create problems.

26 However, all EFRAG members believe that application by analogy is a question of judgment and fact and circumstances of individual transactions and therefore cannot be answered universally for all types of arrangements.

Conc!usion

27 Although some EFRAG members were concerned about the problems that might arise were IFRIC 15 to be applied incorrectly by analogy, other members were not concerned because that would in effect involve the mis-application of IFRS and all members agree that application by analogy is a question of judgment and fact and circumstances of individual transactions and therefore cannot be answered universally for all types of arrangements.

Conclusion

28 Having taken into account all the arguments discussed above, EFRAG's view is that IFRIC 15 is, on balance, a reasonable interpretation of existing IFRS.

DOES THE ACCOUNTING THAT RESULTS FROM THE APPLICATION OF IFRIC 15 MEET THE CRITERIA FOR EU ENDORSEMENT?

29 Finally, EFRAG asked itself whether it believed that the information resulting from the application of IFRIC 15 would meet the criteria for EU endorsement; in other words, that:

(a) it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

(b) it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG also considered whether it would be in the European interest to adopt the Interpretation.

30 EFRAG has previously concluded that the existing IAS 11 and IAS 18 meet the EU endorsement criteria. For the reasons set out above, EFRAG has now concluded that IFRIC 15 is a reasonable interpretation of endorsed IFRS literature.

Relevance

31 According to the Framework, information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. EFRAG considered whether IFRIC 15 would result in the provision of relevant information; information that has predictive value, confirmatory value or both.

32 Some EFRAG members had concerns about whether IFRIC 15 results in the provision of relevant information. Those EFRAG members note that the effect of IFRIC 15 would be that many real estate construction contracts are taken out of the scope of IAS 11; as a result, although they are currently accounted for using percentage of completion (PoC), they will henceforth be accounted for using completed contract (CC) accounting. In their view, in many cases this will be contrary to the stated intentions and purpose of IAS 11. They believe this is because 'construction contract' has been interpreted by the IFRIC without considering the purpose and objective of IAS 11. The continuous transfer model might have made up for this had it be of wide applicability, but in their view it will prove to be of limited practical relevance. In particular, these EFRAG members believe that IAS 11 is about 'customer driven' contract based transactions and that construction only takes place because there is a sale agreement in place. They further note that a lot of the wording in IAS 11 suggests that IAS 11 is actually about long-term contracts. Finally, they refer the objectives of IAS 11 and to IAS 11.25 which indicate that the purpose of the PoC method is to account for long-term construction activities by aligning costs and revenue, in a way that, in case of long-term construction activities, it provides useful information to users.

33 The majority of EFRAG members do not share the concerns, or at least not to the same degree. They believe that IFRIC 15's interpretation of the "construction contract" term is a possible and, in relation to agreements for the construction of real estate, appropriate interpretation, as explained in the previous section. They further are of the opinion that the accounting prescribed by IFRIC 15 better reflects the economic substance.

Re~iabi~ity

34 The Framework explains that information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. EFRAG considered whether the implementation of IFRIC 15 would result in reliable information being included in the financial statements.

35 EFRAG believes that the implementation of IFRIC 15 would raise no concerns about risk of error or bias. Some EFRAG members have concerns about the representational faithfulness of the information prepared in accordance with IFRIC 15 for the reasons set out in paragraph 32 above. However, the majority of those members do not share those concerns for the reasons set out in paragraph 33.

Comparabi!ity

36 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

37 The IFRIC's objective in issuing IFRIC 15 was to eliminate the cause of the current diversity in practice in the accounting treatment of agreements for the construction of real estate and thereby improve the comparability of the information provided in financial statements. EFRAG believes that IFRIC 15 has done that. In particular, IFRIC 15 reduces divergence in practice by clarifying the dividing line between contracts in the scope of IAS 11 and those that fall under IAS 18 and by providing guidance on how IAS 18 should be applied to different types of agreements for the construction of real estate falling within its scope. This increases comparability and ensures that users of financial statements compare like with like and are therefore not obscured by arbitrary accounting outcomes.

38 As explained in paragraphs 11 and 12 above, IFRIC 15 will not eliminate all uncertainty as to whether an agreement is a construction contract as defined by IAS 11. A degree of judgement will continue to need to be applied. EFRAG nevertheless believes that the comparability criterion will still be met.

Understandabi!ity

39 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.

40 EFRAG concluded that the information that results from the application of IFRIC 15 is understandable as it is more comparable than hitherto and ensures that the accounting consequences of agreements for the construction of real estate are more evident than before. The information also provides meaningful information of related risk in the revenue recognition process. In addition, IFRIC 15 requires additional d isclosu re on so-called "continuous transfer" transactions, which ensures that complex matters are appropriately explained and reflected in the financial statements.

True and Fair

41 For the reasons set out above, EFRAG sees no reason to believe that IFRIC 15 is inconsistent with the true and fair view requirement.

European Interest

42 EFRAG has considered whether the benefits of implementing IFRIC 15 in the EU exceed the costs of doing so. Its initial assessment (as explained more fully in Appendix 3) is that, although implementation of IFRIC 15 would involve some costs, they are likely to be outweighed by the benefits.

Conc!usion

43 After considering all the above arguments, EFRAG concluded that on balance IFRIC 15 satisfies the criteria for EU endorsement and EFRAG should therefore recommend its endorsement.

APPENDIX 3
EFRAG'S EVALUATION OF THE COSTS AND BENEFITS OF IFRIC 15

1 EFRAG has also considered whether, and if so to what extent, implementing IFRIC 15 in the EU might involve preparers or users incurring incremental costs, and whether those costs are likely to be exceeded by the benefits to be derived from its adoption.

Reading and understanding IFRIC 15

2 Every change that is made to IFRS needs to be read and understood by preparers and users so that they can determine whether the change has any effect on them and, if it does, what that effect is. Normally the cost involved in doing this is insignificant compared to the other costs involved and to the benefits. EFRAG has considered whether that is also the case for IFRIC 15.

3 Although the scope of IFRIC 15 is limited to agreements for the construction of real estate, determining whether application by analogy to other types of construction contracts might be appropriate will require judgement and consideration of the facts and circumstances surrounding such transactions. EFRAG believes that this is a question that many entities will be required to answer for a wide range of construction contract transactions, resulting in some year one and ongoing costs for preparers. However, this is often the case with new standards and interpretations, and the costs involved tend not to be significant.

4 EFRAG's initial assessment is that, reading and understanding IFRIC 15 will involve some year one and ongoing costs, but those incremental costs are unlikely to be significant.

Costs and benefits arising from the main requirements

5 In assessing the costs and benefits that might arise from implementing IFRIC 15, EFRAG has found it easiest to consider the disclosure requirements and transitional arrangements separately from the other requirements ('the main requirements'). Those main requirements are considered in paragraphs 6 to 11 below.

Costs for preparers

6 IFRIC 15 will require preparers to review their existing and future agreements for the construction of real estate in order to establish if they are in the scope of IAS 11 or IAS 18 and how to account subsequently for revenue. It will also be necessary for entities that have agreements that might be similar to agreements for the construction of real estate to review existing contracts and future contracts to establish whether IFRIC 15 should be applied by analogy to them. For future agreements, this is not an issue because it would have been necessary to consider how to account for the agreements in any case. However, for existing agreements this will involve additional year one work and therefore some additional year one cost.

7 As a result of IFRIC 15, some entities need to change the way they account for some or all of their agreements.

(a) Some agreements previously accounted for using a percentage of completion (PoC) method will need to be accounted for using completed contract (CC) accounting. In principle, CC accounting is less demanding from a systems and estimation perspective and will therefore—in theory—reduce the costs preparers will incur in such cases. However, EFRAG's understanding is that some preparers may continue using percentage of completion (PoC) accounting for internal decision making purposes, in which case there will be no cost saving from the implementation of IFRIC 15; rather, the need to maintain two systems might increase costs. EFRAG's initial assessment is that these costs are unlikely to be significant, as tracking the information needed for CC accounting is a rather simple task.

(b) Some preparers will have to move, as a consequence of IFRIC 15, from CC accounting to PoC accounting. While this will result in setting up new tracking systems and applying a higher degree ofjudgement, EFRAG believes that on an overall level, considering all preparers subject to the implementation of IFRIC 15, these companies will be in the minority and as a result on an overall basis these incremental costs will not be significant.

8 In summary, EFRAG's initial assessment is that IFRIC 15 will result in some insignificant incremental costs for preparers in year one to categorise their existing agreements and, for those entities required to change their accounting, is likely to result in a reduction in ongoing costs more often than it will result in an increase—although in neither case are the cost changes likely to be significant.

Costs for users

9 EFRAG has also considered whether IFRIC 15 will in some way increase the burden on users of financial statements. Its tentative view is that it will impose no additional burden on users (beyond that involved in understanding the implications of IFRIC 15, which is dealt with in paragraphs 2 to 4 above).

Benefits forpreparers and users

10 EFRAG has concluded, for the reasons explained in Appendix 2, that IFRIC 15 will result in a reduction in divergence in practice, thereby enhancing consistency and comparability of the information provided. This should be a benefit to all stakeholders.

Additional disclosures

11 IFRIC 15 requires preparers to provide additional disclosures in the case of so-called 'continuous transfer' transactions. These additional disclosures will result in additional ongoing publication costs, although that cost ought to be insignificant. Furthermore, the additional disclosures will also involve some additional year one and ongoing costs for preparers as they have to gather the required information as part of their financial statement preparation process. However, EFRAG's understanding is that generally all of the information needed to provide the additional disclosures will already be readily available within the entity. As a result, EFRAG's initial assessment is that again these costs ought to be insignificant.

12 EFRAG has also considered whether these additional disclosures will in some way increase the burden on users of financial statements. Its tentative view is that the additional disclosures will impose no additional burden on users; rather, they will allow users to have an improved understanding of the financial statements.

Transitional arrangements

13 Entities are required to apply IFRIC 15 retrospectively. As explained above, EFRAG believes that, if a change in accounting is necessary, it will most often involve changing from PoC to CC accounting. EFRAG believes that doing this retrospectively will not cause a problem as information should be readily available. On the other hand, where there is a change from CC to PoC accounting, either the information will be available—in which case no significant costs ought to be involved in implementing IFRIC 15 retrospectively—or it will not be available. If the information is not available, incurring additional costs will not make it available.

Conclusion

14 Summarising the comments above, EFRAG's initial assessment is as follows.

(a) IFRIC 15 is likely to involve some preparers in some additional year one and ongoing costs. However, EFRAG's initial assessment is that, when considered in aggregate, those costs will not be significant.

(b) IFRIC 15 is likely to involve users in no year one or ongoing incremental costs.

(c) IFRIC 15 is likely to result in improvements in the comparability, and therefore the quality, ofthe information provided.

15 EFRAG's initial assessment is that these benefits are likely to outweigh the costs involved.