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Brookfield Multiplex Limited
(ABN 96 008 687 063)

24 April 2009

The Chairman
Australian Accounting Standards Board
P O Box 204
Collins Street West
Victoria 8007

Comments on Discussion Paper "Preliminary Views on Revenue Recognition in Contracts with Customers"

Dear Sir

Thank you for the opportunity to comment on the *Discussion Paper "Preliminary Views on Revenue Recognition in Contracts with Customers"*. We welcome the opportunity to contribute to this discussion as we believe that it has the potential to have a significant impact on our business if certain issues are not addressed.

Brookfield Multiplex is a large property group which operates across the property value chain. Our 5 main streams of business are property development, constructions, property services, funds management and property ownership. Brookfield Multiplex is a subsidiary of Brookfield Asset Management, a global asset management group which is dual listed on the Toronto and New York Stock Exchanges.

Largely our concerns around this Discussion Paper relate mainly to our Constructions business.

In summary we have found the following main areas of concern with the proposals in the Discussion Paper:

1. The definition of control and transfer of control under a services contract is not clear. It is also not very clear whether or not construction contracts constitute a provision of a service or of a good. Clearly if this proposed new standard is suggesting that construction contracts constitute the provision of a good (that is, the delivery of a completed building) then this will significantly impact on our revenue and profit recognition with revenue and profits not being able to be recognised until the very end of a construction contract. This does not reflect the economic reality of a construction contract and therefore we request that clarification is made to ensure that construction contracts are treated as provision of a service.
2. There is no mention of costs or of profit recognition.
3. There could be potentially misleading information provided to the users of financial statements period on period if these proposals are adopted. We have provided, at Appendix B, an analysis, based on our reading of this discussion paper, of the impact the adoption of the proposals would have on our revenue and profit recognition.
4. The methodology prescribed in the discussion paper relating to the recognition of variations, claims and early completion bonuses could also lead to misleading information period on period. Again, we have provided worked examples at Appendix B of how the remeasurement proposals in this discussion paper would impact on our revenue and profit recognition.
5. There are going to be practical issues involved with the adoption of these proposals as currently our construction contract accounting systems are all focussed on costs. If the proposals of this discussion paper are adopted, there will have to be new processes and systems implemented to identify and cost separate performance obligations.

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6. Currently the management of our construction contracts is based on management of costs. We are of the view that changing the accounting treatment to focus on identifying and costing separate performance obligations will lead to a disconnect between the way in which management manages the business and the way in which our business is accounted for.

We have also attached at Appendix A, answers to the questions raised in the discussion paper.

If you require further information or clarification please do not hesitate to contact me.

Yours faithfully

Linda Benson
Group General Manager Projects
Brookfield Multiplex Limited

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APPENDIX A
RESPONSES TO QUESTIONS RAISED IN THE DISCUSSION PAPER

Chapter 2:
A contract-based revenue recognition principle

Question 1: Do you agree with the boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

Whilst we do agree in principal, we have 2 concerns.

Firstly, as noted above, it is not clear whether or not, for our construction contracts, we will be able to progressively recognise revenue and profits or whether we would have to wait until the end of a contract to do this.

Secondly, the discussion paper isn't clear on the actual accounting entries expected to be booked.

Question 2: Are there any types of contracts for which the boards/ proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

As noted above, we would only be providing decision useful information under these proposals if we are able to recognise revenue progressively throughout the performance of the construction contract.

Question 3: Do you agree with the boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

We agree.

Chapter 3:
Performance obligations

Question 4: Do you think the boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

For large construction contracts, it is not always logical or possible to breakdown the contract components into levels as shown in for example in Example A42 in the discussion paper.

Large contracts obviously have components and a defined list of performance obligations but they are based and assessed on works performed, for example, excavation, concrete, paint, windows, etc across multiple levels.
It would be very arbitrary to split revenue into specific components and the costs into specific components in many cases. This methodology would also be open to manipulation and could result in a delay in recognising losses or a delay in recognising profits if an entity chose to do so.
This would also lead to inconsistencies in the application of the standard between different construction businesses.

Question 5: Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

As noted above, it is not very clear for service providers as to when the promised asset is transferred to customers. In addition, we request clarity that this concept can be applied to construction contracts.

Question 6: Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?

No comment.

Question 7: Do you think that sales incentives (eg: discounts on future sales, customer loyalty points and 'free' goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

No comment.

Chapter 4:
Satisfaction of performance obligations

Question 8: Do you agree that an entity transfer an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised services? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

As noted above, the transfer of control is not clear for construction contracts. We believe that it would be on certification of each stage by the quantity surveyors. However this is not specifically covered in the Discussion Paper. In addition, the paper seems to be very focussed, on this point, on the legal form of the contract which may not always reflect the economic reality and may also lead to legal contracts being written in order to achieve a specific outcome. Again, this would lead to inconsistencies between different construction businesses.

Question 9: The boards propose that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

Not apart from the points already noted above.

Chapter 5:
Measurement of performance obligations

Question 10: In the boards' proposed mode, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

Yes – that is the best information we have available at that point in time.

b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

Whilst we agree that if a contract is making a loss it should be deemed onerous, we are unclear on the remeasurement entries and we also believe it does not accurately reflect the position of a contract for claims and variations.

c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.

We are unclear on the remeasurement entries and we also believe it does not accurately reflect the position of a contract for claims and variations.

d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

Refer above.

Question 11: The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customer to recover any costs of obtaining the contract (eg: selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contracts should be included in the initial measurement of an entity's performance obligations? Why or why not?

We believe that they should to the extent that they are recoverable. Expensing these costs immediately would distort profit recognition period on period and would also contribute to additional lumpiness in revenue and profit recognition on long term contracts.

b) In what cases would recognising contract origination costs as expenses as they are incurred not provided decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

Refer above.

Question 12: Do you agree that the transaction prices should be allocated to the performance obligations on the basis of entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

It may not always be possible to separate these out.

Question 13: Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

This could lead to very arbitrary allocations and therefore inconsistency across different construction entities.

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APPENDIX B
WORKED EXAMPLES OF IMPACT OF PROPOSED STANDARD

A42

Contract signed for $1m with 2 distinct phases ($600 & $400)

Costs and Revenue can be clearly split into level 1 & 2 — Proposed Standard — Current Method (assuming 2 separate contracts)

31-Mar	*Contract Value*	*Forecast Final Cost*	*Margin*	Contract Liability	Revenue Recognised	Cost of Sales	Margin	Contract Liability	Revenue Recognised	Revenue Adjustment	Cost of Sales	Margin
Level 1	*600,000*	*500,000*	*100,000*	600,000								
Level 2	*400,000*	*300,000*	*100,000*	400,000								
Total	*1,000,000*	*800,000*	*200,000*	1,000,000	-	-	-	-	-		-	-

leve l 50% complete based on estimate of work complete (revenue)
Forecast costs increase $50k on level 1

30-Jun	*Contract Value*	*Forecast Final Cost*	*Margin*	Contract Liability	Revenue Recognised	Cost of Sales	Margin	Contract Liability	Revenue Recognised	Revenue Adjustment	Cost of Sales	Margin
Level 1	*600,000*	*550,000*	*50,000*	300,000	300,000	300,000	-		300,000	27,273	300,000	27,273
Level 2	*400,000*	*300,000*	*100,000*	400,000	-	-	-		-		-	-
Total	*1,000,000*	*850,000*	*150,000*	700,000	300,000	300,000	-	-	300,000		300,000	27,273

leve l 100% complete based on estimate of work complete (revenue)

30-Sep	*Contract Value*	*Forecast Final Cost*	*Margin*	Contract Liability	Revenue Recognised	Cost of Sales	Margin	Contract Liability	Revenue Recognised	Revenue Adjustment	Cost of Sales	Margin
Level 1	*600,000*	*550,000*	*50,000*	-	600,000	550,000	50,000		600,000		550,000	50,000
Level 2	*400,000*	*300,000*	*100,000*	400,000	-	-	-		-		-	-
Total	*1,000,000*	*850,000*	*150,000*	400,000	600,000	550,000	50,000	-	600,000		550,000	50,000

leve l & level 2 100% complete based on estimate of work complete (revenue)

31-Dec	*Contract Value*	*Forecast Final Cost*	*Margin*	Contract Liability	Revenue Recognised	Cost of Sales	Margin	Contract Liability	Revenue Recognised	Revenue Adjustment	Cost of Sales	Margin
Level 1	*600,000*	*550,000*	*50,000*	-	600,000	550,000	50,000		600,000		550,000	50,000
Level 2	*400,000*	*300,000*	*100,000*	-	400,000	300,000	100,000		400,000		300,000	100,000
Total	*1,000,000*	*850,000*	*150,000*	-	1,000,000	850,000	150,000	-	1,000,000		850,000	150,000

5.65

Assumptions
2 year contract
Prepaid contract $100k
Forecast costs are $80k
assume contract complete evenly over each year — Proposed Standard — Current Method

	Contract Value	*Forecast Final Cost*	*Margin*	Contract Liability	Revenue Recognised	Cost of Sales	Margin	Contract Liability	Revenue Recognised	Revenue Adjustment	Cost of Sales	Margin
Jan 20X1												
CU	*100,000*	*80,000*	*20,000*	100,000								
Dec 20X1												
CU	*100,000*	*88,000*	*12,000*	50,000	50,000	40,000	10,000		50,000	(4,545)	40,000	5,455
Dec 20X2												
CU	*100,000*	*88,000*	*12,000*		50,000	48,000	2,000		50,000	4,545	48,000	6,545

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5.7

Assumptions
2 year contract
Prepaid contract $100k
Forecast costs are $80k
assume contract complete evenly over each year

				Proposed Standard				Current Method				
	Contract	*Forecast*	*Margin*	Contract	Revenue	Cost	Margin	Contract	Revenue	Revenue	Cost	Margin
Jan 20X1	*Value*	*Final Cost*		Liability	Recognised	of Sales		Liability	Recognised	Adjustment	of Sales	
CU	*100,000*	*80,000*	*20,000*	100,000								
	Contract	*Forecast*	*Margin*	Contract	Revenue	Cost	Margin	Contract	Revenue	Revenue	Cost	Margin
Dec 20X1	*Value*	*Final Cost*		Liability	Recognised	of Sales		Liability	Recognised	Adjustment	of Sales	
CU	*100,000*	*96,000*	4,000	50,000	50,000	40,000	10,000		50,000	(8,333)	40,000	1,667
Remeasure							(6,000)					
							4,000					
	Contract	*Forecast*	*Margin*	Contract	Revenue	Cost	Margin	Contract	Revenue	Revenue	Cost	Margin
Dec 20X2	*Value*	*Final Cost*		Liability	Recognised	of Sales		Liability	Recognised	Adjustment	of Sales	
CU	*100,000*	*96,000*	4,000		50,000	56,000	(6,000)		50,000	8,333	56,000	2,333
							6,000					
							0					

5.75 a

Assumptions
2 year contract
Prepaid contract $100k
Forecast costs are $80k
assume contract complete evenly over each year

				Proposed Standard				Current Method				
	Contract	*Forecast*	*Margin*	Contract	Revenue	Cost	Margin	Contract	Revenue	Revenue	Cost	Margin
Jan 20X1	*Value*	*Final Cost*		Liability	Recognised	of Sales		Liability	Recognised	Adjustment	of Sales	
CU	*100,000*	*80,000*	*20,000*	100,000								
	Contract	*Forecast*	*Margin*	Contract	Revenue	Cost	Margin	Contract	Revenue	Revenue	Cost	Margin
Dec 20X1	*Value*	*Final Cost*		Liability	Recognised	of Sales		Liability	Recognised	Adjustment	of Sales	
CU	*100,000*	*91,000*	9,000	50,000	50,000	40,000	10,000		50,000	(6,044)	40,000	3,956
Remeasure				1,000			(1,000)					
				51,000			9,000					
	Contract	*Forecast*	*Margin*	Contract	Revenue	Cost	Margin	Contract	Revenue	Revenue	Cost	Margin
Dec 20X2	*Value*	*Final Cost*		Liability	Recognised	of Sales		Liability	Recognised	Adjustment	of Sales	
CU	*100,000*	*91,000*	9,000		50,000	51,000	(1,000)		50,000	6,044	51,000	5,044
							1,000					
							0					

5.75 b

Assumptions
2 year contract
Prepaid contract $100k
Forecast costs are $80k
assume contract complete evenly over each year

				Proposed Standard				Current Method				
	Contract	*Forecast*	*Margin*	Contract	Revenue	Cost	Margin	Contract	Revenue	Revenue	Cost	Margin
Jan 20X1	*Value*	*Final Cost*		Liability	Recognised	of Sales		Liability	Recognised	Adjustment	of Sales	
CU	*100,000*	*80,000*	*20,000*	100,000								
	Contract	*Forecast*	*Margin*	Contract	Revenue	Cost	Margin	Contract	Revenue	Revenue	Cost	Margin
Dec 20X1	*Value*	*Final Cost*		Liability	Recognised	of Sales		Liability	Recognised	Adjustment	of Sales	
CU	*100,000*	*99,000*	1,000	50,000	50,000	40,000	10,000		50,000	(9,596)	40,000	404
Remeasure				9,000			(9,000)					
				59,000			1,000					
	Contract	*Forecast*	*Margin*	Contract	Revenue	Cost	Margin	Contract	Revenue	Revenue	Cost	Margin
Dec 20X2	*Value*	*Final Cost*		Liability	Recognised	of Sales		Liability	Recognised	Adjustment	of Sales	
CU	*100,000*	*99,000*	1,000		50,000	59,000	(9,000)		50,000	9,596	59,000	596
							9,000					
							0					