

24 April 2009

The Acting Chairman
Australian Accounting Standards Board
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AUSTRALIA
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Dear Sir

ITC 18: Revenue Recognition in Contracts with Customers

Thank you for the opportunity to provide our comments on the IASB/FASB ITC 18 Request for Comment on IASB Discussion Paper: *Preliminary Views on Revenue Recognition in Contracts with Customers* (The Proposal).

The Property Council represents the public policy interest of the investment property sector in Australia. It also fosters a more informed, connected and professional property marketplace.

The Property Council serves the interests of companies across all four quadrants of property investment activity, as well as property developers and managers. Associate members include Australia's leading professional services and trade providers. Property Council members own or manage \$320 billion of assets in all categories of investment activity.

The Property Council supports enhanced comparability of financial information between real estate companies worldwide. A consolidated revenue recognition standard is practical and necessary, however we are concerned that the Proposal has significant consequences for the property industry because it:

- focuses on the revenue of exchange transactions based on control rather than the transfer of risk and reward - long term development transactions potentially cannot recognise revenue until the customer has physical control of the good, which may only be at the end of the contract period;
- does not provide guidance as to how this revenue recognition model should be applied to complex real estate transactions; and
- replaces established definitions with untested new concepts that are not well explained - potentially leading to diversity in interpretation and inconsistent application.

The industry's primary concerns are that:

- 1) The Proposal will not necessarily provide any more relevant information to users than current accounting standards given its focus on revenue

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and lack of guidance on the allocation of costs to revenue. In many industries, including property development and construction, margin and profitability are key performance indicators so it is unclear as to how the Proposal will impact these indicators.

- 2) The Proposal encourages adherence to the legal form of transactions over their economic substance:
 - a) **Multiple Deliverables** – We welcome additional guidance on identifying separate deliverables in one contract, however the proposed methodology for allocating revenue between multiple deliverables will produce significantly different outcomes depending on the method used to allocate the transaction price to each deliverable. There are also further practical difficulties in segmenting contracts consistently using the guidance provided in the Proposal;
 - b) **Goods and Services** – it is not clear at what point a 'service' is transferred to the customer for recognising performance and management fees under the Proposal. Further guidance is required to define whether goods or services are provided in property development transactions;
 - c) **Bid Costs** – The Proposal does not provide a clear way to determine the integral and incidental costs for a contract bid which makes revenue recognition difficult and uncertain.
- 3) The Proposal does not include sufficient guidance in relation to:
 - a) the concept of control and how it relates to construction and development transactions in particular;
 - b) the role of the existing revenue recognition standard IFRIC 15 *Agreements for the Construction of Real Estate* and specifically how continuous transfer will apply to real estate.
- 4) The Proposal does not deal with issues which are still to be debated and covered in further IASB and AASB meetings. The boards' conclusions on these issues may significantly impact our reported financial information however we presently do not know the boards' intentions in these areas:
 - a) scope of a general revenue recognition standard (refer to our comments above concerning the interaction of these proposals with the Leases project);
 - b) contract renewal and cancellation options (including return rights);
 - c) combining contracts;
 - d) changes in a contract's terms and conditions after contract inception;
 - e) application guidance on the determination of performance obligations; the determination of when performance obligations are satisfied and the determination of standalone selling prices

- f) consideration of the costs to be included when determining whether a contract is onerous;
 - g) determination of the unit of account for testing of onerous obligations;
 - h) balance sheet implications including the gross or net presentation of contract liabilities and contract assets and the gross or net presentation of the rights and obligations of the contract.
- 5) The Discussion Paper *DP/2009/1 Leases: Preliminary Views* includes two alternative revenue recognition models for lessor accounting which present fundamentally different financial information for revenue recognition. Furthermore, the Discussion Paper on leases notes additional complexity results from the interrelationship with the current guidance under IFRS and US GAAP on investment property. Commercially, a significant amount of revenues in the Australian real estate investment sector derive from operating leases rentals on investment properties.

From the perspective of the real estate industry we believe the boards must further consider their proposals for both lessor accounting and investment property in conjunction with this Proposal to achieve a sensible accounting framework.

We have had the opportunity to review the submission of the Australian Constructors Association to the AASB and support the recommendations proposed in addition to our own.

The Property Council considers that substantial further work needs to be done to remove the inherent conflicts identified above and we are happy to provide our assistance to this process.

We attach as an Appendix our responses to the questions as requested in the Proposal.

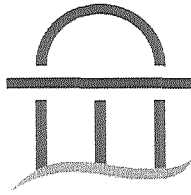
Please note that the comments made in our attached submission paper assume that leasing will be dealt with under a separate standard and we will provide comments on this issue when appropriate.

We would be pleased to meet with the Board or its staff to discuss any questions regarding our comments. If you have any queries in the meantime, please contact Andrew Mihno on 0406 45 45 49.

Yours sincerely



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Appendix 1: Responses to Questions in the Proposal

Topic	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?
<p>Chapter 2: A contract-based revenue recognition principle</p>	<p>Yes the Property Council supports the principle of one revenue recognition model to the extent that it can be practically applied and is beneficial to users.</p> <p>A single revenue recognition approach can enhance consistency and comparability, however, the Proposal has significant consequences for the property and funds management industries as follows:</p> <ul style="list-style-type: none"> • The focus on control and legal form rather than risks and rewards may result in the accounting not reflecting economic substance; • There is a focus on revenue as the key performance driver however margin and profitability are the key performance drivers for the property industry. In light of this, the following points within the Proposal do not fit well: <ul style="list-style-type: none"> ○ Introduction of new concepts but the Proposal does not provide sufficient guidance on their application to the property (real estate transaction) and funds management industries (for example, performance fees); ○ The lack of guidance on cost allocation to revenue; and ○ The Proposal does not address several concepts and issues which impact on our industry and may change the way in which financial information is reported. This includes the identification of goods versus services, segmentation of contracts in complex real estate transactions and allocation of the transaction price to multiple deliverables and performance obligations. <p>These issues must be addressed to avoid confusion, inconsistent application and impractical outcomes. We recommend that the guidance be amended to include more examples as to how the standard is to be interpreted. We have provided a number of issues related to the property industry which could be dealt with in examples in the standard.</p> <p>Our key concern is that the timing of transferring of legal control of the asset does not necessarily correspond to the economic substance of the transactions. This issue is addressed below.</p>

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- **Reduced guidance on existing concepts** - the property industry has consistently lobbied for additional guidance regarding accounting for real estate transactions under IAS 18 *Revenue*. IFRIC 15 was issued and provided this guidance and now it is unclear how the Proposal will interact with IFRIC 15. It is presumed that IFRIC 15 will be repealed in the event that a new revenue standard is introduced. For the real estate sector to continue to have IFRS guidance we believe that the Proposals need to incorporate specific guidance and include illustration examples that address issues specific to this sector, including how the notion of continuous transfer will apply to real estate.
- **No guidance on new concepts** - There is no guidance on accounting for the real estate sector and specifically property development in the Proposal. There needs to be more guidance on applying the concept of “control” in practice given the bespoke legal nature of contracts in Australia and globally and the potential for this to lead to diverse outcomes.
- **Economic substance vs legal form** – The application of new concepts will lead to impractical outcomes which need to be identified and solved. For example, the notion of risk and reward is well accepted and consistently applied across the industry as being relevant and reflective of the economics of the transaction rather than the legal form of a transaction. The risk for the industry is that the use of a “control model” can change the timing of revenue recognition such that the economic substance of transactions is not reflected in the financial statements. The property industry is particularly concerned about the legalistic interpretation of control and the consequence will be that revenue recognition is delayed until the entity has extinguished contractual obligations and transferred legal title to property. As noted above this is impractical for agreements such as long term contracts.
- **Worked examples are required** – The Proposal is a fundamental change to the approach to revenue recognition and there is insufficient guidance such that preparers can apply the principles consistently to achieve the same revenue recognition outcome.

Further comment regarding long term development contracts

- **Activities as a driver for revenue** - We disagree with the IASB’s comment that activities are not a driver for revenue. It is widely accepted and understood in relation to long term property development contracts that revenue is linked to activities performed and effort expended during the contract period. We are concerned that for such contracts that moving away from the fundamental principles in IAS 11 will create revenue recognition profiles that are not reflective of the performance of the contract.
- **Inconsistent treatment of transactions** - Each contract is unique and the current approach runs the risk that different reporting outcomes may be required for contracts that are fundamentally similar. This will undermine consistency and comparability.
- **Skew investment away from long term projects** – The Proposal risks skewing the investment decisions for listed entities away from long term projects due to the delay in revenue recognition. This could change the dynamic of the property industry in Australia, and be a deterrent the take up of large high density property developments that at this point are vital to the Australian economy.

Finally, the Discussion Paper *Leases: Preliminary Views* includes two alternative revenue recognition models for lessor accounting which present fundamentally different financial information for revenue recognition. Furthermore, the Discussion Paper on leases notes additional complexity results from the interrelationship with the current guidance under IFRS and US GAAP on investment property. Commercially, a significant amount of revenues in the Australian real estate investment sector derive from operating leases rentals on investment properties. From the perspective of the real estate industry we believe that the boards must further consider their proposals for both lessor accounting and investment property in conjunction with this discussion paper on revenue recognition to achieve a sensible accounting framework.

We are concerned that the current Proposal does not necessarily provide more relevant information to users (due to its focus on legal form over substance) than the current accounting standards, but will mean a substantial change in accounting practices at considerable cost to companies within the industry.

	<p>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?</p>
	<p>The application of this revenue recognition model to long term contracts is unclear, particularly when assets are developed specifically for a customer.</p> <p>The use of a “control model” can change the timing of revenue recognition in ways that do not reflect the economic substance of the transaction. The property industry is particularly concerned that the requirement for the customer to have physical control of a good before revenue is recognised will lead to a legalistic interpretation of control and the consequence will be that revenue recognition is delayed until the entity has extinguished contractual obligations, including legal transfer of title. We recommend that this be clarified so that revenue is recognised when the customer controls a right to receive the asset or benefits from the asset even when physical title has not transferred. Disclosure of financial results which do not reflect the economic substance is not useful to users.</p> <p>As noted above this is impractical for long term contracts. For example, a commercial building is constructed on behalf of a customer to the customer’s specification. We believe that if the intention is for revenue to be recognised on completion of development of such an asset will not provide relevant and reliable information to users. The potential outcome on long term projects, such as a long term customised property development, revenue may not be recognised until completion of the contract when significant activity and progress is made as development progresses, is not expected to provide decision useful information.</p>
	<p>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.</p>
	<p>We agree with the Board’s definition of a contract and believe it reflects generally accepted concept of a contract.</p>
<p>Chapter 3: Performance obligations</p>	<p>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.</p>
	<p>While we welcome guidance on multiple deliverables that is clearly emerging in IFRS, the Proposal has to deal with a number of related issues. Further, we consider that guidance provided in the Proposal on segmenting real estate development contracts will ensure more consistent application.</p> <p>There are challenges in identifying performance obligations in the real estate sector, the first of which is the difficulty in determining whether it is a good or service that is being provided, which ultimately impacts the practical ability to separately identify performance obligations. We set out examples to assist highlight the issue.</p>

	<ul style="list-style-type: none"> • Consider a contract for a property developer to subdivide land. It is unclear whether the process of subdividing the land results in it being: <ul style="list-style-type: none"> - a service that is provided; - the delivery of the land results in goods (being the various lots) being delivered; or - a combination of goods and services. • Consider the development of a commercial building on land initially owned by the developer. The developer then commits to provide leasing services to the customer. It is unclear if the developer is selling inventory in the form of land and the completed building, or providing a service in the form of construction services and leasing services. <p>These issues were addressed in IFRIC 15 but the guidance has not been transferred to the Proposal.</p> <p>We reiterate that long term contracts where the development is tailored to a customer’s specifications can be clearly differentiated from other developments where the customer only can specify design to the extent of options offered by the developer. We believe that for the former (i.e., customised development contracts) that the entity is providing a service to the customer. In other developments we believe that the guidance in IFRIC 15 would be beneficial and should be integrated as appropriate into the proposals.</p> <p>When it is considered that a service is being provided under the contract, then it is our view that there is a continuous transfer of control of the underlying asset to the customer. The potential number of underlying performance obligations being provided is significant and can also vary significantly depending on the drafting of the contract even though the service being provided is exactly the same. Clearly, this could result in different interpretation of the nature of performance obligations by preparers of the financial statements. The best indicator of the extent to which the entity’s obligation to provide services has been met under the contract are linked to the activities performed by the underlying entity as it is reflective of the effort expended.</p> <p>As illustrated above, further real estate specific guidance is required on the identification of performance obligations in contracts. We suggest that our specific concerns and views are included in future guidance in relation to this revenue recognition standard.</p>
	<p>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?</p>
	<p>We agree that unbundling of separate performance obligations should only occur when the relevant asset(s) are delivered at different times.</p> <p>However, the practicality of this approach is highly dependent on the interpretation of “control”; addressed in Question 8.</p> <p>We note that there is limited guidance in 3.18 to 3.20 in the interpretation of the “transfer” of an asset. We consider that the term “transfer” should reflect the economic substance of the transaction as opposed to passing legal title. The Proposal takes a legalistic view in terms of the definition of control. Our concern is that this moves away from revenue recognition reflecting the pattern of the economic substance of the transaction. This creates problems for unbundling performance obligations, as it may recognise revenue for assets that does not reflect the correct timing or true value of the asset at that point in time.</p>

	<p>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?</p>
	<p>We do not consider that the right of return (buy back) is a performance obligation but rather forms part of the assessment of whether control transfers at the point of sale. If the Boards do not agree with this approach and this is a performance obligation, then this cannot be recognised until it is probable that the good will be returned.</p> <p>We illustrate the application of this “right of return” concept based on common examples in the real estate sector below.</p> <p>Sunset Clauses - Sunset clauses are common in property developments and allow for the property to be “put back” to the developer in the event of missing a practical completion date by a specified period of time, or other specific event occurring.</p> <p>For example, when developing a commercial building, if completion is not achieved within two years of the practical completion date, the Development Management Agreement states that the customer can “put” the building back to the developer, and the developer is forced to effectively purchase the building from the customer. This is known as a “sunset clause”.</p> <p>Sunset clauses could be viewed under the Proposal as an overarching restriction on the contract which indicates that control can never be transferred to the customer until the completed building is delivered. Potentially this could mean that control cannot theoretically be transferred permanently until delivery, and revenue cannot be recognised until building certification is obtained. This is problematic and does not reflect the reality of the transaction. We believe that an assessment of probability must be made as to the likelihood of the asset being put back to the developer before any revenue can be recognised. This assessment criteria is in line with current assessment of revenue that incorporates the probability of the economic benefits associated with the transaction flowing to the entity (IAS 18.14(d)). A review of the status of the project must be reviewed and if it is not considered probable that the sunset clause will be exercised then we do not believe that the existence of this clause alone should preclude revenue recognition.</p>
	<p>Put Options - In the property industry the sale of a property (investment property or development asset) may include an associated put option. The commonly used put option entitles the purchaser to “put” the asset back to the seller (usually at cost) at a future date if certain performance or sales/development conditions are not met. The purpose of the put option is to provide additional certainty to the purchaser in relation to key aspects of the asset, such as tenancy profile, rental value or practical completion of the development. Under current interpretation of accounting standards the sale would be deferred until the risk and reward of ownership had passed and the put option could no longer be exercised.</p> <p>It is considered that the put option (buy back) is also not a performance obligation but as noted above, there should be an assessment made before any revenue is recognised on a contract, as with sunset clauses, the assessment must determine the likelihood of the put option being exercised (buy back occurring) to ensure that revenue/a sale is not recognised when there is a very high probability that the asset will be put back to the seller.</p> <p>We suggest the guidance is included that reflects the views articulated above.</p>
	<p>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?</p>
	<p>No comment.</p>

<p>Chapter 4: Satisfaction of performance obligations</p>	<p>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.</p>
	<p>We acknowledge that there is an entire chapter on “control” however it does not give clear guidance. The specific problems from an industry perspective are:</p> <ul style="list-style-type: none"> • The Proposal appears to take a legalistic view in terms of the definition of control. Our concern is that this moves away from revenue recognition reflecting the pattern of the economic substance of the transaction. <p>For example, in a 50 lot subdivision if 98% of the subdivision is complete (with only minor road works to be finished) but title has not transferred, then currently no revenue is recognised because there is only minor work remaining. This accurately reflects the work done. However under the Proposal, revenue may not be recognised until 100% completion when legal title passes. It does not follow that because legal title and therefore control has not transferred that automatically some or all of the performance obligations have not been satisfied.</p> <ul style="list-style-type: none"> • The Proposal is unclear if legal title needs to be transferred to the customer for the control definition to be satisfied. Our view is that legal ownership passing to the customer is not essential for control to be passed. The key is whether the customer can deal with an asset as it pleases. This is certainly the view taken in IFRIC 18 <i>Transfers of Assets from Customers</i> and we believe that consistency is required across all IFRS as to the definition of control, including new Exposure Drafts such as ED 10 <i>Consolidated Financial Statements</i>. <p>For example, in an office development it is necessary for the developer to provide infrastructure for land remediation and then develop the office building. Legal title may not transferred to the customer until settlement (to provide security for payment, minimise transaction costs) or much later, or there may be put/calls that delay the title transfer.</p> <p>Under the current IFRS, it may be that significant risks and rewards are transferred prior to settlement and revenue can be recognised on the basis that the entity has performed its contractual obligations under the contract. Under this Proposal however, the segmenting of the contract may result in the land with infrastructure and the office building each being a separate deliverable. However, legal title to the land may not be transferred until the office building is complete.</p> <p>Under the Proposals, the interpretation of control is unclear:</p> <ul style="list-style-type: none"> ○ When legal title is not transferred, that is if the above contract is segmented into the delivery of infrastructure and an office building, how do you determine whether control of the infrastructure has been transferred to the customer? ○ If the developer never owns the land in the first place to transfer title and so the transfer of title is irrelevant. <ul style="list-style-type: none"> • These examples highlight that legal title is only a proxy for control that breaks down in some relatively common property development transactions.

Similarly, when an entity structures an asset sale via a 99 year lease, the question is has control transferred and can revenue be recognised? If the answer to this question is no, then the entity would retain the asset on its balance sheet along with a liability for the same quantum. This would result in a net asset position of nil and a gross up of the balance sheet. We believe that such an outcome overstates the assets and liabilities on the balance sheet and the fact that no revenue is recognised does not reflect the underlying asset sale transaction that has occurred. Again this raises the question as to how this Proposal interacts with Discussion Paper on Leases.

- Additional guidance is required as to what are the indicators of control. We believe that transfer of legal ownership is (ordinarily) an indicator that control has passed, however it should not preclude earlier recognition of revenue if other strong indicators show that control has passed. This is particularly relevant if there is a put/call option or other obligation dictating when the customer will take title or when the sale has been transacted by the issuance of a 99 year lease. Also, it is important to note that legal title will pass at different times over a contract life in different countries due to different legal jurisdictions, but this should not necessarily result in different revenue recognition outcomes. For example, title transfer may be withheld deliberately as security against full payment by the customer.
- Credit risk is not contemplated in this Proposal for determining if revenue can be recognised. Collectibility of monies is fundamental to the financial statements reflecting the transaction and should be a factor assessed at the time revenue recognition is determined.

Further, this principle is clearly embedded in IAS 18, via the principle regarding the probability of future benefits being received and relevant and reliable measurement of revenue. This is a prudent and appropriate principle in IFRS that should remain.

- It is unclear how continuing managerial involvement affects control and is a factor that still needs to be considered.

	<p>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.</p>
	<p>We refer to our comments and the examples provided in Question 8.</p> <p>We believe that recognition of revenue that requires legal transfer of title jeopardises the decision-usefulness and comparability of financial statements. This is on the basis that we believe that transfer of legal title is not a significant indicator of the performance of the company under that contract. Banks, analysts and investors could not be in a position to compare performance of entities when revenue and earnings profiles vary so greatly due to different legal clauses in what are essentially the same type of transaction.</p> <p>See also response to Question 10 below in relation to recognition timing and amount for performance fees for property fund managers.</p>
<p>Chapter 5: Measurement of performance obligations</p>	<p>Question 10: In the boards' proposed model, 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.</p> <p>a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?</p>
	<ul style="list-style-type: none"> • Performance fees – further guidance is needed as to how revenue should be recognised under performance fee arrangements. Two common types of performance fee arrangements for entities which manage real estate investment trusts (“REITs”) are: <ul style="list-style-type: none"> ○ Performance fees for listed REITs are often based on a formula which includes the percentage growth in the listed share price of the REIT multiplied by a fee percentage and multiplied by the gross or net assets of the trust. Fees are typically calculated and ‘crystallise’ under the scheme documents annually based on the year end listed share price. ○ Performance fees for unlisted REITs are often based on a formula which compares the percentage growth in the Net Asset Value of the fund compared to a benchmark (either a fixed return such as 10% or compared to a benchmark of other schemes) and multiplies any excess by a fee percentage and the gross or net assets of the trust. Again fees are calculated and paid annually or over longer periods with clawback mechanisms in the event that negative returns are generated subsequent to payment. <p>Schemes and management companies subject to these arrangements are often required to prepare financial information (for example interim accounts) where the amount to be recognised under the performance fee arrangement needs to be considered while the performance has not yet ‘crystallised’ and become payable. Current accounting practice can be divergent and to the extent revenue is booked it relies on estimation techniques as to the probability of fees being payable at the calculation/payment date based on outperformance to date.</p> <p>The new accounting standard for revenue is an opportunity to provide greater guidance as to how such arrangements should be accounted for both in terms of the timing of recognition of revenue and the method for calculating the amount of revenue to be recognised. It is not clear at what point the ‘service’ is transferred to the customer. In the case of listed funds, performance fees are often calculated and paid annually while the fund’s share price fluctuates daily as a result of the management services provided throughout the period. Therefore the asset is enhanced simultaneously with the provision of the service by the fund manager. However for the purposes of administering the fee the cut off for determining the calculation of the fee is set annually.</p>

	<p>Should recognition of the revenue be based therefore on the timing of the ongoing provision of the service, with the risk that this requires estimation techniques and constant revision as subsequent performance fluctuates? Or is the definition of performance of the obligation by the fund manager more relevant in which case all revenues should be recognised at the end of the calculation period once it is clear that a positive return or outperformance of a benchmark has been delivered?</p> <p>The proposed standard should contain examples within the application guidance as to how such arrangements should be recognised as revenue.</p> <p>We suggest that the IASB provides guidance through examples so that the current diverse practice of accounting for performance fees is eliminated.</p>
	<p>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?</p>
	<p>We agree that the onerous contracts are measured appropriately under the Proposal.</p> <p>However, we note that the Proposal makes a flawed assumption that the total revenue under a contract will equal the transaction price. All items are variable at inception of a contract, such as change in scope of a development management agreement, performance fee and other contingent consideration. This makes it difficult to determine the final transaction price of a contract on inception. The Proposal as drafted does not provide guidance on how to account for such changes. We believe that the current practice for such changes should be treated consistently as claims and variations in construction contracts under IAS 11.</p>
	<p>Further, the profit on the contract should be assessed each reporting date and "trued up" cumulatively, not prospectively. We believe the "true up" being applied in the current reporting period provides decision useful information as the financial results of the company reflect the latest financial position on contracts.</p>
	<p>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.</p>
	<p>As noted above the Proposal does not factor in that margins on contracts change over time, and so as the Proposal is currently drafted we do not believe this would result in decision-useful information for users.</p> <p>Refer 10(a) for response in relation to performance fees.</p>
	<p>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.</p>
	<p>There are significant challenges to allocating a transaction price to unsatisfied performance obligations, such as guarantees, warranties as they are integral to the contract and not sold separately.</p>

	<p>They may have considerably different values outside the contract itself. This may result in a more arbitrary allocation and deferral of revenue than the accrual of costs of what is yet to be completed. The time period for these may also be significant.</p> <p>Given that property development does not relate to the development of homogenous products, it is not possible to use historical experience as a best estimate of the claims and warranties that will occur under any particular contract. Therefore for such performance obligations that are unable to be reliably valued or forecast, the costs should be expensed as incurred and the obligation not allocated a value under this revenue recognition model.</p>
	<p>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.</p> <p>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?</p>
	<p>Yes we agree and this is consistent with the way deals are priced.</p>
	<p>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.</p>
	<p>We consider that any Exposure Draft or new Standard should distinguish between contract costs which are directly related to the contract "hard costs", and other costs ("soft costs"). We consider that costs directly attributable to the contract should be capitalised if it is considered probable that economic benefits will flow in future periods. It is important to determine whether the costs have a direct link to the specific contract and enduring benefit in the event the contract is won. Often these costs will form part of the transaction price.</p> <p>Examples of hard costs would be design, expert reports, and appointment of dedicated project manager.</p> <p>Examples of soft costs would be internal time in preparing proposal, marketing and presentation materials.</p> <p>It is crucial that such costs are assessed for recoverability each reporting period.</p>
	<p>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?</p>
	<p>Refer to Question 4.</p>

	<p>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?</p>
	<p>Entities should have an accounting policy choice of how to determine the allocation of transaction price between multiple deliverables when the goods and/or services separately identified as a performance obligation are part of the one contract and not sold separately. We do not believe that it is appropriate to mandate a particular method of estimating the transaction price to be allocated between multiple deliverables.</p> <p>The determination of how to allocate the transaction price to multiple deliverables that are not sold separately can vary significantly depending on the basis for determining the stand-alone selling price of each deliverable. This is best explained by way of example.</p> <p>Example: A property developer acquires the right to develop brownfield land from the government. The developer then sources a take out party to purchase the office building which will be built on the land. The developer is required to remediate the land prior to being suitable for use by the take out party. The developer never has title to the land but rather the government transfers the land directly to the take out party.</p> <p>There are two separate deliverables that the developer is providing to the take out party:</p> <ol style="list-style-type: none"> 1) The transfer of the development rights to the fully remediated land to the take out party; 2) Development management services for the construction and completion of the office building. <p>The issue is how to allocate the transaction price to the two deliverables. These are the options:</p> <ol style="list-style-type: none"> a) From the take out party's perspective, the receipt of the development rights and land is of significant value compared to the delivery of the completed office building. An independent valuation of the remediated land with development rights attached results in a significant uplift to the value of the land. This approach of allocating the transaction price would invariably result in most of the transaction price being allocated to this first deliverable. b) The developer allocates the transaction price to the first deliverable based on a cost plus margin. The costs to remediate the land are typically lower in comparison to the value added from the perspective of the customer and external parties. <p>Each of options (a) and (b) would result in substantially different revenue and profit profile for the developer. Allocation based on fair value of the land would result in a much higher profit margin being recognised compared with the cost plus margin approach.</p> <p>Therefore depending on the nature of the contract and which measurement approach is taken, very different revenue recognition and indeed profit outcomes could eventuate. It is arguable which provides more relevant and reliable information to users of financial reports and this may vary depending on the nature of the goods and/or services being provided under the contract. On this basis, we believe that entities should have an accounting policy choice of how to determine the allocation of transaction price between multiple deliverables when the goods are not sold separately.</p>

