

EXPOSURE DRAFT

Agreements for the Construction of Real Estate

Comments to be received by 1 October 2010

This exposure draft *Agreements for the Construction of Real Estate* is issued by the Accountant-General's Department Financial Reporting Branch for comment only and does not necessarily represent the views of Accountant-General's Department Financial Reporting Branch. The proposals may be modified in the light of the comments received before being issued in final form as INT SB-FRS 115.

This exposure draft includes an accompanying note as issued by Accounting Standards Council on the application of the equivalent INT FRS 115 in Singapore for comments.

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by 1 October 2010 preferably by email to AGD_ASSB_Feedback@agd.gov.sg or addressed to:

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Exposure Draft: Interpretation of Statutory Board Financial Reporting Standard (ED INT SB-FRS) 115 *Agreements for the Construction of Real Estate* is set out in paragraphs 1–25. ED INT SB-FRS 115 is accompanied by an information note and illustrative examples. The scope and authority of Interpretations are set out in the *Preface to Statutory Board Financial Reporting Standards*.

EXPOSURE DRAFT INTERPRETATION OF STATUTORY BOARD FINANCIAL REPORTING STANDARD INT SB-FRS 115

Agreements for the Construction of Real Estate

References

- SB-FRS 1 *Presentation of Financial Statements*
- SB-FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- SB-FRS 11 *Construction Contracts*
- SB-FRS 18 *Revenue*
- SB-FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- INT SB-FRS 112 *Service Concession Arrangements*
- INT SB-FRS 113 *Customer Loyalty Programmes*

Background

- 1 In the real estate industry, entities that undertake the construction of real estate, directly or through subcontractors, may enter into agreements with one or more buyers before construction is complete. Such agreements take diverse forms.
- 2 For example, entities that undertake the construction of residential real estate may start to market individual units (apartments or houses) 'off plan', ie while construction is still in progress, or even before it has begun. Each buyer enters into an agreement with the entity to acquire a specified unit when it is ready for occupation. Typically, the buyer pays a deposit to the entity that is refundable only if the entity fails to deliver the completed unit in accordance with the contracted terms. The balance of the purchase price is generally paid to the entity only on contractual completion, when the buyer obtains possession of the unit.
- 3 Entities that undertake the construction of commercial or industrial real estate may enter into an agreement with a single buyer. The buyer may be required to make progress payments between the time of the initial agreement and contractual completion. Construction may take place on land the buyer owns or leases before construction begins.

Scope

- 4 This Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors.
- 5 Agreements in the scope of this Interpretation are agreements for the construction of real estate. In addition to the construction of real estate, such agreements may include the delivery of other goods or services.

Issues

- 6 The Interpretation addresses two issues:

- (a) Is the agreement within the scope of SB-FRS 11 or SB-FRS 18?
- (b) When should revenue from the construction of real estate be recognised?

Consensus

- 7 The following discussion assumes that the entity has previously analysed the agreement for the construction of real estate and any related agreements and concluded that it will retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the constructed real estate to an extent that would preclude recognition of some or all of the consideration as revenue. If recognition of some of the consideration as revenue is precluded, the following discussion applies only to the part of the agreement for which revenue will be recognised.
- 8 Within a single agreement, an entity may contract to deliver goods or services in addition to the construction of real estate (eg a sale of land or provision of property management services). In accordance with paragraph 13 of SB-FRS 18, such an agreement may need to be split into separately identifiable components including one for the construction of real estate. The fair value of the total consideration received or receivable for the agreement shall be allocated to each component. If separate components are identified, the entity applies paragraphs 10–12 of this Interpretation to the component for the construction of real estate in order to determine whether that component is within the scope of SB-FRS 11 or SB-FRS 18. The segmenting criteria of SB-FRS 11 then apply to any component of the agreement that is determined to be a construction contract.
- 9 The following discussion refers to an agreement for the construction of real estate but it also applies to a component for the construction of real estate identified within an agreement that includes other components.

Determining whether the agreement is within the scope of SB-FRS 11 or SB-FRS 18

- 10 Determining whether an agreement for the construction of real estate is within the scope of SB-FRS 11 or SB-FRS 18 depends on the terms of the agreement and all the surrounding facts and circumstances. Such a determination requires judgement with respect to each agreement.
- 11 SB-FRS 11 applies when the agreement meets the definition of a construction contract set out in paragraph 3 of SB-FRS 11: ‘a contract specifically negotiated for the construction of an asset or a combination of assets ...’ An agreement for the construction of real estate meets the definition of a construction contract 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 or not it exercises that ability). When SB-FRS 11 applies, the construction contract also includes any contracts or components for the rendering of services that are directly related to the construction of the real estate in accordance with paragraph 5(a) of SB-FRS 11 and paragraph 4 of SB-FRS 18.
- 12 In contrast, an agreement for the construction of real estate in which buyers have only limited ability to influence the design of the real estate, eg 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 SB-FRS 18.

Accounting for revenue from the construction of real estate

The agreement is a construction contract

- 13 When the agreement is within the scope of SB-FRS 11 and its outcome can be estimated

reliably, the entity shall recognise revenue by reference to the stage of completion of the contract activity in accordance with SB-FRS 11.

- 14 The agreement may not meet the definition of a construction contract and therefore be within the scope of SB-FRS 18. In this case, the entity shall determine whether the agreement is for the rendering of services or for the sale of goods.

The agreement is an agreement for the rendering of services

- 15 If the entity is not required to acquire and supply construction materials, the agreement may be only an agreement for the rendering of services in accordance with SB-FRS 18. In this case, if the criteria in paragraph 20 of SB-FRS 18 are met, SB-FRS 18 requires revenue to be recognised by reference to the stage of completion of the transaction using the percentage of completion method. The requirements of SB-FRS 11 are generally applicable to the recognition of revenue and the associated expenses for such a transaction (SB-FRS 18 paragraph 21).

The agreement is an agreement for the sale of goods

- 16 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 an agreement for the sale of goods and the criteria for recognition of revenue set out in paragraph 14 of SB-FRS 18 apply.
- 17 The entity may transfer to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. In this case, if all the criteria in paragraph 14 of SB-FRS 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. The requirements of SB-FRS 11 are generally applicable to the recognition of revenue and the associated expenses for such a transaction.
- 18 The entity may transfer to the buyer control and the significant risks and rewards of ownership of the real estate in its entirety at a single time (eg at completion, upon or after delivery). In this case, the entity shall recognise revenue only when all the criteria in paragraph 14 of SB-FRS 18 are satisfied.
- 19 When the entity is required to perform further work on real estate already delivered to the buyer, it shall recognise a liability and an expense in accordance with paragraph 19 of SB-FRS 18. The liability shall be measured in accordance with SB-FRS 37. When the entity is required to deliver further goods or services that are separately identifiable from the real estate already delivered to the buyer, it would have identified the remaining goods or services as a separate component of the sale, in accordance with paragraph 8 of this Interpretation.

Disclosures

- 20 When an entity recognises revenue using the percentage of completion method for agreements that meet all the criteria in paragraph 14 of SB-FRS 18 continuously as construction progresses (see paragraph 17 of the Interpretation), it shall disclose:
- (a) how it determines which agreements meet all the criteria in paragraph 14 of SB-FRS 18 continuously as construction progresses;
 - (b) the amount of revenue arising from such agreements in the period; and
 - (c) the methods used to determine the stage of completion of agreements in progress.
- 21 For the agreements described in paragraph 20 that are in progress at the reporting date, the entity shall also disclose:

- (a) the aggregate amount of costs incurred and recognised profits (less recognised losses) to date; and
- (b) the amount of advances received.

Amendments to the appendix to SB-FRS 18

22 This Interpretation supersedes the real estate guidance (Example 9) in the appendix to SB-FRS 18.

23 The appendix to SB-FRS 18 is amended as described below.

All of the text under the heading '9 *Real estate sales.*' is deleted.

New text is inserted under the heading as follows:

'This example has been superseded by INT SB-FRS 115 *Agreements for the Construction of Real Estate.*'

Effective date and transition

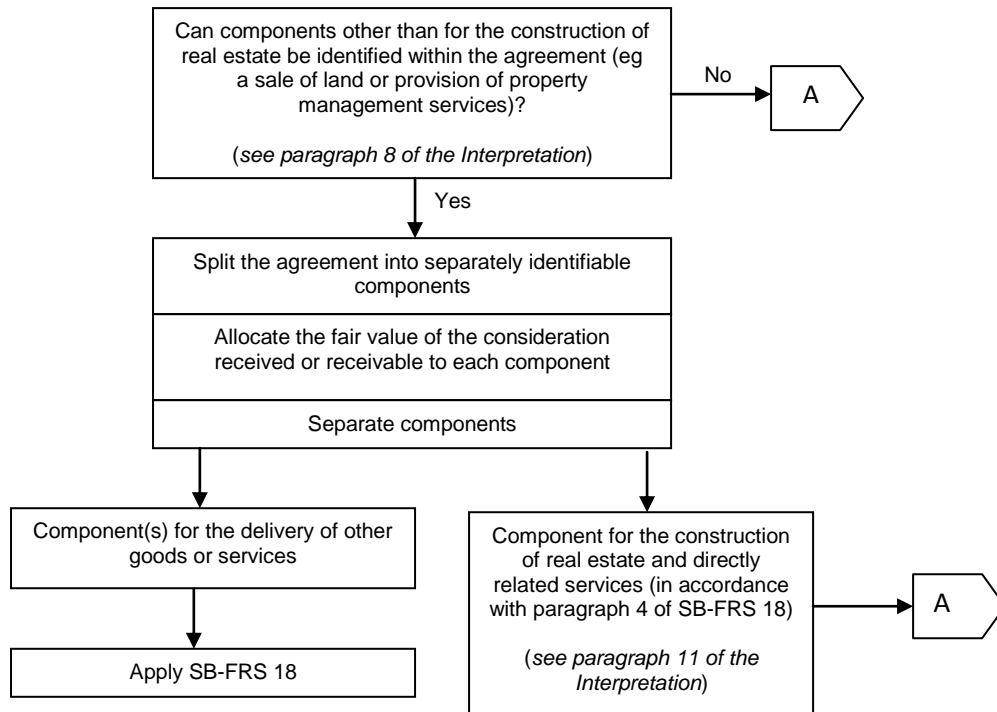
24 An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the Interpretation for a period beginning before 1 January 2011, it shall disclose that fact.

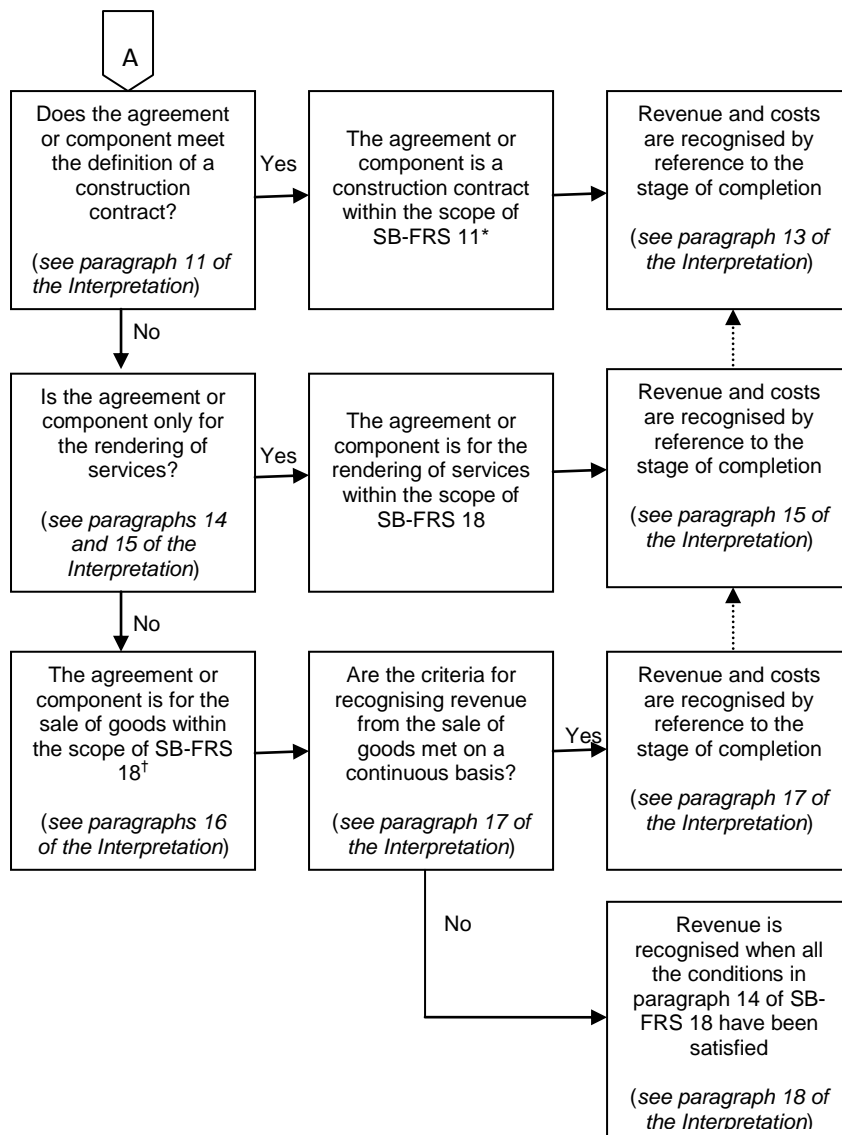
25 Changes in accounting policy shall be accounted for retrospectively in accordance with SB-FRS 8.

Information note

Analysis of a single agreement for the construction of real estate

This note accompanies, but is not part of, INT SB-FRS 115.





* The construction contract may need to be segmented in accordance with paragraph 8 of SB-FRS 11

† Directly related services may need to be separated in accordance with paragraph 13 of SB-FRS 18

Illustrative examples

These examples accompany, but are not part of, INT SB-FRS 115.

Example 1

- IE1 An entity buys a plot of land for the construction of commercial real estate. It designs an office block to build on the land and submits the designs to planning authorities in order to obtain building permission. The entity markets the office block to potential tenants and signs conditional lease agreements. The entity markets the office block to potential buyers and signs with one of them a conditional agreement for the sale of land and the construction of the office block. The buyer cannot put the land or the incomplete office block back to the entity. The entity receives the building permission and all agreements become unconditional. The entity is given access to the land in order to undertake the construction and then constructs the office block.
- IE2 In this illustrative example, the agreement should be separated into two components: a component for the sale of land and a component for the construction of the office block. The component for the sale of land is a sale of goods within the scope of SB-FRS 18.
- IE3 Because all the major structural decisions were made by the entity and were included in the designs submitted to the planning authorities before the buyer signed the conditional agreement, it is assumed that there will be no major change in the designs after the construction has begun. Consequently, the component for the construction of the office block is not a construction contract and is within the scope of SB-FRS 18. The facts, including that the construction takes place on land the buyer owns before construction begins and that the buyer cannot put the incomplete office block back to the entity, indicate that the entity transfers to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. Therefore, if all the criteria in paragraph 14 of SB-FRS 18 are met continuously as construction progresses, the entity recognises revenue from the construction of the office block by reference to the stage of completion using the percentage of completion method.
- IE4 Alternatively, assume that the construction of the office block started before the entity signed the agreement with the buyer. In that event, the agreement should be separated into three components: a component for the sale of land, a component for the partially constructed office block and a component for the construction of the office block. The entity should apply the recognition criteria separately to each component. Assuming that the other facts remain unchanged, the entity recognises revenue from the component for the construction of the office block by reference to the stage of completion using the percentage of completion method as explained in paragraph IE3.
- IE5 In this example, the sale of land is determined to be a separately identifiable component from the component for the construction of real estate. However, depending on facts and circumstances, the entity may conclude that such a component is not separately identifiable. For example, in some jurisdictions, a condominium is legally defined as the absolute ownership of a unit based on a legal description of the airspace the unit actually occupies, plus an undivided interest in the ownership of the common elements (that includes the land and actual building itself, all the driveways, parking, lifts, outside hallways, recreation and landscaped areas) that are owned jointly with the other condominium unit owners. In this case, the undivided interest in the ownership of the common elements does not give the buyer control and the significant risks and rewards of the land itself. Indeed, the right to the unit itself and the interest in the common elements are not separable.

Example 2

- IE6 An entity is developing residential real estate and starts marketing individual units

(apartments) while construction is still in progress. Buyers enter into a binding sale agreement that gives them the right to acquire a specified unit when it is ready for occupation. They pay a deposit that is refundable only if the entity fails to deliver the completed unit in accordance with the contracted terms. Buyers are also required to make progress payments between the time of the initial agreement and contractual completion. The balance of the purchase price is paid only on contractual completion, when buyers obtain possession of their unit. Buyers are able to specify only minor variations to the basic design but they cannot specify or alter major structural elements of the design of their unit. In the jurisdiction, no rights to the underlying real estate asset transfer to the buyer other than through the agreement. Consequently, the construction takes place regardless of whether sale agreements exist.

- IE7 In this illustrative example, the terms of the agreement and all the surrounding facts and circumstances indicate that the agreement is not a construction contract. The agreement is a forward contract that gives the buyer an asset in the form of a right to acquire, use and sell the completed real estate at a later date and an obligation to pay the purchase price in accordance with its terms. Although the buyer might be able to transfer its interest in the forward contract to another party, the entity retains control and the significant risks and rewards of ownership of the work in progress in its current state until the completed real estate is transferred. Therefore, revenue should be recognised only when all the criteria in paragraph 14 of SB-FRS 18 are met (at completion in this example).
- IE8 Alternatively, assume that, in the jurisdiction, the law requires the entity to transfer immediately to the buyer ownership of the real estate in its current state of completion and that any additional construction becomes the property of the buyer as construction progresses. The entity would need to consider all the terms of the agreement to determine whether this change in the timing of the transfer of ownership means that the entity transfers to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. For example, the fact that if the agreement is terminated before construction is complete, the buyer retains the work in progress and the entity has the right to be paid for the work performed, might indicate that control is transferred along with ownership. If it does, and if all the criteria in paragraph 14 of SB-FRS 18 are met continuously as construction progresses, the entity recognises revenue by reference to the stage of completion using the percentage of completion method taking into account the stage of completion of the whole building and the agreements signed with individual buyers.

Example 3

- IE9 Determining whether the entity will retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the constructed real estate to an extent that would preclude recognition of some or all of the consideration as revenue depends on the terms of the agreement and all the surrounding facts and circumstances. Such a determination requires judgement. The Interpretation assumes the entity has reached the conclusion that it is appropriate to recognise revenue from the agreement and discusses how to determine the appropriate pattern of revenue recognition.
- IE10 Agreements for the construction of real estate may include such a degree of continuing managerial involvement by the entity undertaking the construction that control and the significant risks and rewards of ownership are not transferred even when construction is complete and the buyer obtains possession. Examples are agreements in which the entity guarantees occupancy of the property for a specified period, or guarantees a return on the buyer's investment for a specified period. In such circumstances, recognition of revenue may be delayed or precluded altogether.
- IE11 Agreements for the construction of real estate may give the buyer a right to take over the work in progress (albeit with a penalty) during construction, eg to engage a different entity to complete the construction. This fact, along with others, may indicate that the entity transfers to the buyer control of the work in progress in its current state as construction progresses. The entity that undertakes the construction of real estate will have access to the land and the

work in progress in order to perform its contractual obligation to deliver to the buyer completed real estate. If control of the work in process is transferred continuously, that access does not necessarily imply that the entity undertaking the construction retains continuing managerial involvement with the real estate to the degree usually associated with ownership to an extent that would preclude recognition of some or all of the consideration as revenue. The entity may have control over the activities related to the performance of its contractual obligation but not over the real estate itself.

Exposure Draft: INT SB-FRS 115 Agreements for the Construction of Real Estate

Accompanying Note on Application of INT FRS 115 in Singapore

This accompanying note is an integral part of INT FRS 115 and is issued by Accounting Standards Council (“Council”). This accompanying note is issued as part of ED INT SB-FRS 115 for comments on statutory boards on the application of the equivalent INT FRS 115 as issued by the Council.

Introduction

1 This note takes into account the legal framework in Singapore that is directly relevant to the application of INT FRS 115 in Singapore and summarises the Council’s considerations in reaching its consensus on the accounting treatment for the sale of uncompleted residential properties “off-plan”.

Scope

2 The scope deals with the accounting treatment for revenue and associated expenses by housing developers who develop more than 4 units of private residential properties in Singapore for sale prior to completion¹ of the properties. These developers are regulated under the Singapore Housing Developers (Control and Licensing) Act (Chapter 130) (the “Act”) and use the standard form of the sale and purchase agreement² (the “SPA”) prescribed in Form D for landed properties and Form E for strata-titled properties of the schedule to the Housing Developers Rules, with each unit sold intended to comprise a lot in a land title plan for landed properties and strata title plan for strata-titled properties. Such a unit sold is referred to as “uncompleted property unit”. Such sales are referred to as “standard residential property sales”.

Issue

3 The issue is whether standard residential property sales result in the transfer to the purchasers the control and the significant risks and rewards of ownership of the uncompleted property units in their current state as construction progresses, so that the developer should recognise revenue for such sales by reference to the stage of completion using the percentage of completion method.

¹ This refers to the issue of Certificate of Statutory Completion and individual legal titles for the housing units.

² Any amendment, deletion or alteration to the standard SPA can only be effected with the approval of the Controller of Housing.

Consensus

4 The five criteria set out in FRS 18.14, in the context of standard residential property sales, are analysed in turn below.

Whether the developer has transferred to the purchaser the significant risks and rewards of ownership of the uncompleted property units - FRS18.14(a)

5 The Council noted that no housing development³ (“development”) shall be carried out or undertaken in Singapore except by a housing developer who or which is in possession of a licence in writing from the Controller of Housing authorising it to do so. This point together with the various powers vested with the Controller of Housing and the Minister under the Act, underscore the legislative intent to protect the rights of the purchaser of an uncompleted property unit. The provisions in the Act are necessary to protect the rights of the purchaser and justify the basis that the risks of an uncompleted property unit accrue to the purchaser.

6 Standard residential property sales can result in the transfer of the significant risks and rewards of ownership from the time that the SPA is executed, as the purchaser acquires beneficial ownership of the uncompleted property unit. Such beneficial ownership entitles the purchaser to the rewards of ownership such as the ability to sell the purchaser’s beneficial ownership of the uncompleted property unit to another party, with the gain or loss from such a sale being retained by the purchaser. The purchaser is unable to rescind the standard SPA if the developer does not satisfy its obligations and the Council noted that in this regard, the developer passes the risk of ownership to the purchaser upon the execution of the SPA.

7 The developer similarly passes to the purchaser the risks of ownership such as a progressive instalment payment schedule that is designed to progressively match and pay for the contracted purchase price of the uncompleted property unit as the construction progresses. The payment schedule as specified in the standard SPA is also systematically aligned to the stage of completion certified by a qualified person as defined under section 2(1) of the Building Control Act (Chapter 29) (i.e. 30% of the purchase price would be paid to date which is aligned to the completion of the foundation work of the uncompleted property unit etc.).

8 Downward price changes in the market value of the uncompleted property unit sold to the purchaser will not be borne by the developer. The progressive payments by the purchaser represent a payment for an appropriate proportion of

³ As defined under section 2 of the Act.

the contracted purchase price based on the stage of completion at the date of each of the pre-specified payment intervals.

9 The purchase of an uncompleted property unit exposes the purchaser to losses from the risk of a failure by the developer to complete the property, with the loss of the amounts he has paid to date. The Council noted that the risk of default is mitigated by a requirement in the Act for the developer to operate a separate project account for the development with a bank or finance company.

10 The types of monies to be deposited into and withdrawn from the project account are set out in the Housing Developers (Project Account) Rules. These rules are designed to ensure that monies paid by purchasers in each development are segregated, and utilised only for designated types of payments that relate to the development. The monies shall not be released unless supported by a certificate from the qualified person in charge of the development or documentary proof that payment is due to be made for that designated purpose. This provides a framework that significantly limits the risks to the purchaser of non-completion of the construction of the property.

11 Based on the above observations, the Council noted that standard residential property sales can result in the transfer of the significant risks and rewards of ownership of the uncompleted property units to the purchaser.

Whether the developer retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the uncompleted property units sold - FRS18.14(b)

12 As the sale involves an uncompleted property that the developer has obligations to complete, the developer would continue to have involvement in the uncompleted property sold to the purchaser. During the construction period, such managerial involvement on the part of the developer arises from the contractual obligation of the developer to complete construction in accordance with agreed contractual terms.

13 The Council noted that the SPA together with the relevant building approvals set out the specifications of the property that cannot be changed unilaterally by the developer. Similarly, the developer does not have the right of an owner to deal freely with the uncompleted property unit - once sold, that unit cannot be sold by the developer to another party or be substituted by the developer for another unit. The Council noted that there are no major decisions that a developer can make to derive

ownership benefits, e.g. such as making changes to the specifications and approved plans unless the changes have been approved or are required by the Commissioner of Building Control or any other relevant authority of the uncompleted property.

14 The Council noted that the Act provides, in the event of a developer not meeting its obligations, for the relevant authority to direct the appointment of another developer to carry on the business of the defaulting developer. Such power vested in the Minister underscores the rights of purchasers as owners, since such action is not designed to protect any developer's rights to the property.

15 Based on the above observations, the Council considered that the involvement of the developer is in a managerial capacity acting on behalf of the owners, rather than as an owner and that the developer does not have effective control similar to what an owner would be expected to have.

16 The Council noted that INT FRS 115.17 states that "The entity may transfer to the purchaser control...of the work in progress in its current state as construction progresses." On this point on whether the purchaser obtains control progressively of the uncompleted property unit as construction progresses, the Council has rationalised the concept of control from the dimension of a multi property unit development rather than a single unit property development.

17 The Council noted that absolute control of the uncompleted property unit vests in no one single entity during construction for a multi-unit property development. The standard SPA does not specify that a purchaser is able to take over the uncompleted development during construction (e.g. to engage a different entity to complete the construction). Approaching control from the dimension of a multi-unit property development, the purchaser of a single unit cannot unilaterally change the developer during construction. However, the issue of whether collectively all the purchasers are able to change the developer during construction has not been considered because there has been no such precedence in Singapore to date and hence, inappropriate to speculate with regard to the application of INT FRS 115.

18 The Council noted that a purchaser will not be able to alter the major structural elements of the design of the property unit even after completion of construction and hence, the issue of whether the purchaser has this ability during construction is irrelevant to the application of INT FRS 115. However, the Council noted that there have been instances where the purchaser of two adjoining property units had entered into a supplementary SPA with the developer to combine the 2 property units during construction. The Council noted that the purchaser had evidenced the ability to alter the specifications of the purchaser's own uncompleted property unit within the unit's parameters during construction.

19 The Council noted that the control the Controller of Housing has over the uncompleted property unit during its construction is primarily on the control of the project account and not on the uncompleted property unit. His role is predominantly to safeguard the interests of the purchaser by ensuring the SPA is a fair agreement between both parties.

20 Historically, when a developer defaulted during the construction of an uncompleted development, the mortgagee financial institution which financed the development via a loan to the developer secured by the land and the development as mortgage had stepped in to take over the development.

21 The Council noted that the courses of action taken by a mortgagee financial institution included the appointment of a receiver which subsequently completed the development as per the original SPA or sold the underlying land without completing the development. Typically, the courses of actions depended on the stage of completion and the percentage of units sold to date.

22 The Council noted that there was a case where a mortgagee financial institution sold the underlying land to another developer when it took over the development during the foundation stage of completion when none of the units were sold. In another case, the mortgagee financial institution took over the development with 25 out of the 52 units already sold. The underlying land was sold to a new developer with the sale subject to the new developer taking over the obligations of the failed developer under its existing SPAs with the purchasers.

23 The courses of action taken by a mortgagee financial institution or a receiver appointed on an uncompleted development in respect of a developer which had defaulted are ultimately driven by commercial justifications. The historical rate of defaults by developers in Singapore is minimal.

24 Notwithstanding the above courses of action that could be taken by a mortgagee financial institution, the Council noted that the Minister may intervene under the Act to ensure that the rights of the purchasers under the SPA are safeguarded. In addition, the Council noted that a purchaser is able to mortgage the uncompleted property unit to obtain a housing loan to settle the progressive payments.

25 The Council considered the two alternative scenarios posed in paragraphs IE6 to IE8 of illustrative example 2 accompanying INT FRS 115, the Council noted that legal title of the property unit would only pass to the purchaser upon the completion. The developer would execute a proper conveyance to the purchaser of the property unit and also hand over to the purchaser the title to the property unit, namely the subsidiary strata certificate of title (for a strata-titled property) or the certificate of title (for a landed property). This certificate is an official document issued by the Registrar of Titles stating that the person named in the certificate is the legal owner of the property described in the certificate.

26 To protect the purchaser's interest, the purchaser (i.e. "caveator") may lodge a caveat⁴ against the specific uncompleted property unit under section 115(1) of the Land Titles Act (Chapter 157). The caveat is a precautionary step taken by the caveator pending completion of the uncompleted property unit. The caveat also serves as a notice to others that the caveator has an interest in the uncompleted property unit (i.e. an encumbrance).

27 The Council noted that a caveat lodged on an uncompleted property unit can prevent the developer from dealing with the underlying land independently of the caveator. So long as a caveat remains effective, the Registrar of Titles shall not register any dealing which is prohibited by the caveat. Upon lodgment of a transaction which is prohibited by a caveat, the Registrar of Titles shall serve on the caveator a notice of his intention, at the expiration of 30 days from the date of the service of the notice, to register the transaction. The ability of a caveator to be notified and object to another party's registration of a transaction of the underlying land in which a caveat had been lodged earlier, evidences control associated with ownership of the uncompleted property unit.

28 The Council noted that a missing control factor prior to the completion of construction is that the purchaser does not possess physical control of the completed unit. Prior to the transfer of the legal title, the Council noted that there is a progressive alignment of the monies deposited into the project account and the progressive build up and value accretion of the physical property unit that evidences

⁴ A caveat is a legal document lodged at the Singapore Land Authority by someone (known as a "caveator") against a property in which the caveator claims an interest. The Land Titles Act (Chapter 157) allows any person who claims an interest in the property to lodge a caveat. When a caveat is lodged, the Registrar of Titles will notify it against the property. A caveat may be lodged by any party who has an interest in the property and that party is usually a:-

- purchaser who has paid a deposit to buy a particular property; or
- financial institution which has granted a loan to the owner or the purchaser; or
- Central Provident Fund (CPF) Board when CPF funds are released from the owner's or the purchaser's CPF account(s).

that the purchaser progressively accumulates control over the uncompleted property unit as progressive payments are made to the project account.

29 Accordingly, the legal framework and the caveat system in Singapore taken as a whole provide an equitable right of the purchaser over the uncompleted property unit. This together with the project account and the progress payments made by the purchaser, evidences that the purchaser obtains control over the uncompleted property unit as construction progresses. Collectively, the various mechanisms in the legal framework, over and above contractual rights, establish a purchaser's control over the uncompleted property unit. This is reflected in the historically minimal rate of defaults on developments in Singapore.

Whether the amount of revenue can be measured reliably - FRS18.14(c)

30 The Council noted that the considerations relating to the reliability of measurement of revenue should be based on standard accounting principles and require no further consideration for purposes of this note.

Whether it is probable that the economic benefits associated with the transaction will flow to the developer - FRS18.14 (d)

31 The Council considered the issue of whether the regulatory restrictions in the Act on the use of the monies received from purchasers and deposited in the project account poses a significant uncertainty on the ultimate receipt of the sale proceeds. One related argument is that these monies are the property of the purchasers and held in trust on their behalf. The Council noted that the monies are considered as belonging to the developer, notwithstanding the regulatory restrictions, and that the monies are applied towards the payment of construction costs that the developer would otherwise have to finance. The Council also noted that the developer is allowed to withdraw the balances in the project account ahead of the completion of construction if the developer furnishes a banker's guarantee of equivalent amount to the Controller of Housing and has obtained the Controller of Housing's approval.

32 The Council also considered a scenario where sales of uncompleted property units have been made, but there is considerable uncertainty as to the ability of the developer to sell sufficient units and its ability to continue as a going concern. In such a situation, the Council felt that there would be significant doubt as to the eventual completion of the project and realisation of the attributable profit relating to the sales made to date, since the project could result in a loss overall.

Whether the costs incurred or to be incurred in respect of the transaction can be measured reliably - FRS18.14(e)

33 The Council noted that the considerations relating to the reliability of measurement of costs are no different from standard accounting principles and require no further consideration for purposes of this note.

Conclusion

34 The Council noted that standard residential property sales in Singapore meet the criteria set out in FRS 18.14 that would require such sales to be accounted for on a percentage of completion method. However, in some situations specific to the circumstances of a development project as described in paragraph 32, there might be uncertainties that would require the completion of construction method to be applied, consistently with the principles set out in FRS 18 for the treatment of revenue when such uncertainties exist.