October 14, 2010

International Accounting Standards Board
30 Cannon Street, 1st Floor
London EC4M 6XH
United Kingdom

Dear Sir/Madam:

Re: Exposure Draft ED/2010/6 – Revenue from Contracts with Customers – File Reference No. 1820-100

The Canadian Construction Association (CCA) is the National Voice of the non-residential construction industry in Canada representing some 17,000 individual firms from every region of Canada and every sector of the industry. We welcome the opportunity to comment on the above-noted Exposure Draft.

Upon reviewing the Exposure Draft and auditing the webinar held in September 2010, the following statements we believe to be accurate:

1. Where construction improvements, (either by way of new construction or to existing facilities), are made to realty owned/controlled by the customer and the supplier/contractor builds to a custom design/design criteria/scope directed by the customer/owner and periodic payments are made to the contractor throughout the construction process, the customer/owner has control of the work-in-progress such that continuous revenue recognition is justified.

Rationale:

- The asset (i.e. real property and the subsequent improvement/addition) is controlled by the customer/owner. As the construction materials are affixed to the realty they become part of that asset. There is a continuous transfer.
- Control is demonstrated by the fact that most if not all construction contracts contain provisions that permit the customer/owner to terminate the Contractor’s right to continue with the Work of the Contract for cause and even for convenience but nevertheless obligate the customer/owner to pay the Contractor for the portion of the Work completed up to that time.

In other words, all construction on customer-owned land always constitutes a continuous transfer of control to the customer as work progresses. Revenue is recognized on a systematic basis that best reflects the stage of completion of the project.
2. The foregoing would also apply to subcontractors providing construction services (i.e. supply and installation) to the project through a subcontract with the contractor;

Rationale: Same as above.

3. Where such improvements are done pursuant to a contract executed with an agent of the owner or an associated/affiliated company of the owner of the real property to be improved the same would hold true.

Rationale: In such situations the owner has given control of the asset to the agent.

4. When design and construction are supplied by the same supplier to meet customized criteria specified by the customer/owner that include(s) performance and/or an intended use, the process is an integrated, continuous process with a single performance obligation/objective, i.e. the design phase is not a separate performance obligation even if the entity "sells an identical or similar good or service separately".

Rationale:
- Design and construction when performed by the same contracting entity is an integrated process that is indistinctive, especially where it is performed to a customized set of parameters that often include performance criteria.

- In addition, the single obligation or objective of the process is to provide the desired facility, building, etc. under a single contract.

We believe that the foregoing statements are accurate but feel that these concepts could be better clarified throughout the standard, including the use of more specific construction examples, (i.e. improvements to real property).

Turning to some of the specific questions raised in the Draft:

**Question # 1 – Do you agree with the price interdependence principle to help an entity determine whether to combine or segment contracts?**

**RESPONSE** - It should be clarified. It is difficult to see how this would apply in a construction setting where invariably the contractor is constructing, or designing and constructing in an integrated fashion, to the customized demands of the customer such that the end product must be suitable for the customer's purpose. Even when changes are made to the contract during the progress of the work, often their need arises as a result of unforeseen difficulties that must be overcome in order to achieve the original obligation. These are not distinct performance obligations. Further, even when the price is negotiated independently of the original contract, modifications should be an integral part of the original contract when the new requirements relate to the original project.

**Question # 2 – Do you agree with the principle proposed for determining when a good or service is distinct?**
RESPONSE – More clarity is required. Again it is difficult to see how this would have application in a construction setting where the goods and/or services are not inventory items or "off-the-shelf services". Every construction project is different given the customer's specific expectations and direction, local conditions and the different players. Even in the case of a single contract to design and to build (i.e. a design-build contract) the two functions of designing and building are not separate but wholly integrated in order to meet a single objective/obligation, (i.e. a facility that meets the customer's specific intended purpose/criteria). We think that paragraph 23 could be interpreted as requiring some aspects of a construction contract to be inappropriately recognized as discrete performance obligations. This would result in inconsistent patterns of revenue recognition for similar projects.

Question # 3 – Do you agree the proposed guidance is sufficient for determining when control of a promised good or service has been transferred to a customer?

RESPONSE – For the reasons stated earlier, more clarity is needed particularly with respect to contracts that involve improvements to real property. In this regard, there appears to be some confusion between control of the "asset" and control of the project or site. The indicator, as we understand it, deals with control of the asset. In a construction setting, the contractor may have control of the project site for safety and other reasons but does not have control of the real property asset and its improvement. This must be distinguished in more precise terms.

Question # 13 – Do you agree that an entity should apply the proposed guidance retroactively?

RESPONSE – No. We think the accounting treatment for construction projects in progress on the transition date should be grandfathered to minimize the cost of implementing the new standard.

Question # 14 – Do you think that the implementation guidance provided is sufficient to make the proposals operational?

RESPONSE – Not without the further clarity previously mentioned.

In conclusion, as stated previously, there is a clear need to:

- Address transactions that involve improvements to real property as stated;
- Provide further clarity regarding such principles/indicators as "control of the asset" vs. "control of the project site".

We think the aforementioned clarifications will result in consistent accounting treatment of construction contracts. Should further information be necessary, please do not hesitate to contact the undersigned.

Sincerely,

Michael Atkinson
President