March 13, 2012
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Subject: Exposure Draft (ED/2011/6) on Revenue from Contracts with Customers

Dear Sir/Madam,

Tecnisa S/A welcomes the opportunity to comment on the Exposure Draft named Revenue from Contracts with Customers, mainly recognition of revenue.

We are a Brazilian Publicly Held Real Estate Company at the Brazilian stock market (Bovespa) in the “New Market” segment, the highest level in corporate government.

Recognition of revenue

Question 1

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

Comments on Question 1

We agree with the proposal and suggest maintaining the two paragraphs 35 and 36, as in the case of real estate developers it reflects the essence of the business, especially, the items 35 (a) and (b).

We believe therefore that the assumptions used to transfer control of products and services meet fully the essence of that business, as described on the following example:

EXAMPLE – SALE OF AN APARTMENT UNIT
"The entity develops and performs the launching of a vertical building project, with sales of the units before the beginning of the construction, i.e., off-plan."
The entity (real estate developer) at this point, is still the owner of a piece of land and of a construction project, which will be developed in such land. The units (apartments) are sold to clients by means of a purchase and sale agreement, which is irreversible and irrevocable. As from the moment of sale and signature of the agreement, the unit is no longer available to the real estate developer, and the related risks and benefits are transferred to the purchaser. The installments paid by the clients to the real estate developer, whether with their own resources or through bank financing arrangements, during the period of launching and construction of the project, are used by the real estate developer directly for costing of the construction. The purchase and sale agreement guarantees the purchaser control over the apartment, since, as mentioned above, the property could be sold (disposed of) by the purchaser after the agreement has been signed, in the applicable market. The unit does not need to be physically ready. The legal guarantee is the agreement, and the purchaser has control thereof as soon as the agreement is signed. During the construction period, the purchaser may modify the project of his unit (for example, floor, color etc.), provided the common project (building structure) is not changed and the deadline is not impacted. In such example, the purchaser obtains control as from the execution of the purchase and sale agreement, therefore before the unit is physically ready. Consequently, in this example, the client obtains control over the unit upon execution of the agreement, becoming the owner of an undivided interest in the land and future constructions therein, as the construction work takes place. Thus, the obligation of the real estate developer is completed as it constructs the sold unit. The client also obtains control over the unit, irrespective of its completion.

The above example clearly illustrates the ability of the purchaser to gain control and reap the benefits over the construction of the asset.

If you have any questions about our comments, please contact the following email: ri@tecnisa.com.br.

Yours sincerely,

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