

November 2015

Exposure Draft ED/2015/9

Transfers of Investment Property

Proposed amendment to IAS 40

Comments to be received by 18 March 2016

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Introduction

The International Accounting Standards Board (IASB) has published this Exposure Draft of a proposed amendment to paragraph 57 of IAS 40 *Investment Property*.

Paragraph 57 of IAS 40 provides guidance on transfers to, or from, investment properties. However, it does not specifically address whether a property under construction or development that was previously classified as inventory could be transferred to investment property when there is an evident change in use.

The IASB proposes to amend paragraph 57 of IAS 40 to:

- (a) state that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred; and
- (b) re-characterise the list of circumstances set out in paragraph 57(a)-(d) as a non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list.

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) comment on the questions as stated;
- (b) indicate the specific paragraph(s) to which they relate;
- (c) contain a clear rationale; and
- (d) describe any alternative that the IASB should consider, if applicable.

The IASB is not requesting comments that are not addressed in this Exposure Draft. Comments should be submitted in writing so as to be received no later than **18 March 2016**.

Questions for respondents

Question 1—Proposed amendment

The IASB proposes to amend paragraph 57 of IAS 40 to:

- (a) state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property.
- (b) re-characterise the list of circumstances set out in paragraph 57(a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list.

Do you agree? Why or why not?

Question 2—Transition provisions

The IASB proposes retrospective application of the proposed amendment to IAS 40. Do you agree? Why or why not?

How to comment

Comments should be submitted using one of the following methods.

Electronically Visit the ‘Comment on a proposal page’, which can be found at:
(our preferred method) go.ifrs.org/comment

Email Email comments can be sent to: commentletters@ifrs.org

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[Draft] Amendment to IAS 40 *Investment Property*

Paragraph 57 is amended and paragraph 85F is added. Deleted text is struck through and new text is underlined.

Transfers

- 57 **Transfers** An entity shall transfer a property to, or from, investment property ~~shall be made~~ when, and only when, there is evidence of a change in use, evidenced by. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. Examples of evidence that support a change in use that would lead to a transfer to, or from, investment property include, among others:
- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
 - (b) commencement of development with a view to sale, for a transfer from investment property to inventories;
 - (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; ~~or~~ and
 - (d) commencement of an operating lease to another party, for a transfer from inventories to investment property.
 - (e) [deleted]
- ...

Effective date

- ...
- 85F [Draft] *Transfers of Investment Property* (Amendment to IAS 40), issued in [date], amended paragraph 57. An entity shall apply that amendment for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies that amendment for an earlier period, it shall disclose that fact. An entity shall apply that amendment retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Approval by the Board of the Exposure Draft *Transfers of Investment Property* (Proposed amendment to IAS 40) published in November 2015

The Exposure Draft *Transfers of Investment Property* was approved for publication by fourteen members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Martin Edelmann	
Patrick Finnegan	
Amaro Gomes	
Gary Kabureck	
Suzanne Lloyd	
Takatsugu Ochi	
Darrel Scott	
Chungwoo Suh	
Mary Tokar	
Wei-Guo Zhang	

Basis for Conclusions on the Exposure Draft *Transfers of Investment Property* (Proposed amendment to IAS 40)

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Transfers of investment property

- BC1 The International Accounting Standards Board (IASB) received a question regarding the application of paragraph 57 of IAS 40 *Investment Property*, which sets out requirements on transfers to, or from, investment properties. The request asked whether a property under construction or development that was previously classified as inventory could be transferred to investment property when there is evidence of a change in use.
- BC2 The IASB observed that the improvements issued in May 2008 (*Improvements to IFRSs*) included an amendment to IAS 40. This amendment revised IAS 40 to include within its scope 'property that is being constructed or developed for future use as investment property' (see paragraph 8(e) of IAS 40). A consequential amendment was made to IAS 16 *Property, Plant and Equipment*; previously, IAS 16 applied to a property that is being constructed or developed for future use as investment property until the construction or development was completed. The IASB observed that the improvements issued in May 2008 did not make corresponding amendments to paragraph 57 of IAS 40 on transfers to, or from, investment properties.
- BC3 The IASB observed that paragraph 57 of IAS 40 requires transfers to, or from, investment properties when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. The IASB further noted that the words 'when, and only when' in paragraph 57 are important to ensure that a transfer is limited to situations in which changes in use have taken place. The IASB observed that a change in use would involve:
- (a) an assessment of whether a property qualifies as an investment property; supported by
 - (b) evidence that a change in use has occurred, instead of merely being a change in management's intention.
- BC4 The IASB observed that the list of circumstances that provide evidence of a change in use set out in paragraph 57(a)–(d) of IAS 40 is exhaustive (as shown by the references to 'when and only when' and 'evidenced by' in that paragraph) and therefore this paragraph was meant to be applied only in narrow circumstances.
- BC5 However, the IASB decided to propose that the list of circumstances that provide evidence of a change in use in paragraph 57(a)–(d) not be exhaustive and should only be a list of examples of evidence that a change in use has occurred. The IASB also decided to propose that an entity should transfer property under construction or development into, or out of, investment property when, and only when, there is evidence of a change in the use of such property.

- BC6 Consequently, the IASB proposes to re-characterise the list of circumstances set out in paragraph 57(a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list, and to emphasise that evidence of the change in use is required. The IASB does not propose to add more examples of circumstances that evidence a change in use because the focus should be on the principle that transfers to, or from, investment property and should reflect a change in the use of that property, which is supported by evidence.
- BC7 The IASB proposes retrospective application of the amendment included in the Exposure Draft. This is because the IASB noted that a transfer into, or out of, investment property would result in a change in the measurement basis, and a change in the measurement basis is a change in an accounting policy, in accordance with paragraph 35 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

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