

Draft Comment Letter

Comments should be submitted by 15 March 2016 to commentletters@efrag.org

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

[Date]

Dear Sir/Madam,

Re: Draft Exposure Draft ED/2015/9 *Transfers of Investment Property: Proposed amendment to IAS 40*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on Exposure Draft ED/2015/9 *Transfers of Investment Property: Proposed amendment to IAS 40* issued by the IASB on 19 November 2015 ('the ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS in the European Union and European Economic Area.

EFRAG welcomes and supports the amendment proposed in the ED, as we believe it will reduce divergence in practice and, therefore, improve the quality of financial reporting under IFRS in regard to investment properties. Our detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Vincent van Caloen, Robert Stojek or me.

Yours faithfully,

Roger Marshall
Acting President of the EFRAG Board

APPENDIX

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?

Notes to constituents

- 1 *Paragraph 5 of IAS 40 provides a definition of an investment property. This definition is based on assessment of how the property is used.*
- 2 *Paragraph 57 of IAS 40 restricts transfers of property to, or from, investment property and explains that a transfer shall be made when, and only when, there is a change in use. However, wording of this paragraph and paragraphs 57(a) - 57(d) seems to further restrict transfers and provides an exhaustive list of four circumstances that evidence such a change.*
- 3 *In May 2008 the IASB issued Improvements to International Financial Reporting Standards ('the Improvements') which, among others, extended the scope of IAS 40 to include properties under construction or development for future use as investment property. However, the Improvements did not provide a corresponding amendment to paragraph 57 of IAS 40 and, consequently, none of the examples provided in paragraphs 57(a) - 57(d) relate to circumstances where a property under construction or development is transferred from, or to, investment properties.*
- 4 *The ED proposes to amend paragraph 57 of IAS 40 to reinforce a principle that an entity is required to transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. The ED also clarifies that a change in use occurs when the property meets, or ceases to meet, the definition of investment property.*
- 5 *Furthermore, the ED also proposes to re-characterise paragraphs 57(a) - 57(d) as a non-exhaustive list of examples of evidence that support a change in use that would lead to a transfer to, or from, investment property.*

EFRAG's response

EFRAG welcomes the IASB's proposal to reinforce the principle that a property should be transferred to, or from, investment property when there is evidence that a change in use occurred.

EFRAG also agrees that the list of circumstances set out in paragraph 57(a)–(d) should be re-characterised as a non-exhaustive list of examples of evidence that a change in use has occurred.

- 6 EFRAG notes that paragraph 57 of IAS 40 provide a principle that an entity should transfer of property to, or from, investment property when, and only when, there is evidence of a change in use.
- 7 However, EFRAG also notes that the wording of paragraph 57, including the instances in paragraphs 57(a) - 57(d) of IAS 40, limits this principle to the circumstances explicitly provided.

- 8 EFRAG agrees with the principle provided in paragraph 57 of IAS 40 that an entity should transfer property to, or from, investment property when, and only when, there is evidence of a change in use and believes that this principle should be reinforced.
- 9 Furthermore, EFRAG considers that, in accordance with normal practice, a change in use would require evidence of that change. EFRAG also thinks that examples of the circumstances, that provide evidence of a change in use of property, will be useful and will assist preparers.
- 10 Consequently, EFRAG supports re-characterising paragraphs 57(a) – 57(d) of IAS 40 as examples of evidence of a change in use of investment property.
- 11 EFRAG notes that the original submission to the IFRS Interpretations Committee requested clarification of 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. This issue appears to be resolved by the proposed change in paragraph 57. However, EFRAG notes that paragraphs 57(a) – 57(d) do not address this particular circumstance. In EFRAG's opinion, it would be helpful if an additional example addressing this point were added to paragraph 57.

Question 2 – Transition provisions

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

Notes to constituents

- 12 *The Exposure Draft proposes to apply the amendment retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.*
- 13 *The IASB has not yet determined the date of initial application.*

EFRAG's response

EFRAG supports the proposed retrospective application of the proposed amendment.

- 14 EFRAG generally supports retrospective application of new, or amendments to existing, Standards and Interpretations.
- 15 EFRAG also notes that a transfer into, or out of, investment property would result in a change in the measurement basis. In EFRAG's view, retrospective application will permit the appropriate measurement in the statement of financial position for those investment properties where there has been a change in use and the change in measurement appeared to be prohibited by IAS 40.
- 16 Finally, EFRAG sees no impediments to retrospective application and expects that the associated costs would not be excessive.
- 17 Consequently, EFRAG supports the proposed retrospective application of the proposed amendment.