

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

25 March 2016

Dear Sir/Madam,

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

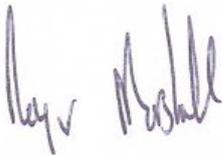
On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on Exposure Draft ED/2015/9 *Transfers of Investment Property: Proposed amendment to IAS 40* issued by the IASB on 19 November 2015 ('the ED').

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 or me.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Roger Marshall'.

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?

### 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.**

- 1 EFRAG notes that paragraph 57 of IAS 40 provides 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. EFRAG agrees with the principle 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.
- 2 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.
- 3 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.
- 4 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.
- 5 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?

**EFRAG's response**

**EFRAG supports the proposed retrospective application of the proposed amendment.**

- 6 EFRAG generally supports retrospective application of new, or amendments to existing, Standards and Interpretations.
- 7 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.
- 8 Finally, EFRAG sees no impediments to retrospective application and expects that the associated costs would not be excessive.
- 9 Consequently, EFRAG supports the proposed retrospective application of the proposed amendment.