

Ms Françoise Flores
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Advisory Group (EFRAG)
35 Square de Meeûs
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Belgium

Ref: The IASB's Exposure Draft *Transfers of Investment Property: Proposed amendments to IAS 40*

Dear Ms Flores, *DEAR FRANÇOISE,*

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to EFRAG's due process. ESMA has considered EFRAG's draft comment letter to the IASB's Exposure Draft (ED) *Transfers of Investment Property: Proposed amendments to IAS 40*. We are pleased to provide you with the following comments with the aim of improving the enforceability of IFRSs and the transparency and decision usefulness of financial statements.

ESMA believes that the issue the IASB needed to be addressed and like EFRAG we support the proposed amendment addressing 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. ESMA also agrees with the proposed retrospective application of the amendment.

Our detailed comments on the ED are set out in Appendix I to this letter. Please do not hesitate to contact us should you wish to discuss all or any of the issues we have raised.

Yours sincerely,



Steven Maijor

Appendix I – ESMA’s detailed answers to the questions in the ED

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 with? Why or why not?

1. ESMA notes that paragraph 57 of IAS 40 *Investment Property* provides guidance when transfers to, or from, investment property shall be made. ESMA equally notes that market participants have read this paragraph in two different ways. On the one hand some assume that this provision includes a principle that is based on the change in use of the property, and that the paragraphs 57(a)-(d) are a list of events that determine a change in use; however this list would not be exhaustive. On the other hand the wording that transfers to, or from, investment property occur when and only when there has been a change in use that is supported by evidence set out in one of the circumstances described in paragraph 57(a)-(d) is understood by others in such a way that transfers in other circumstances, or supported by different evidence, are not permitted.
2. Therefore, ESMA welcomes and supports the proposed modification that paragraph 57 formulates a principle that property transfers to, or from, investment property shall only be made if there is evidence of a change in use. Thus the list of circumstances set out in paragraph 57(a)-(d) is a non-exhaustive list of examples of evidence for a change in use and that there might be other circumstances evidencing a change in use. ESMA believes that the proposed amendments will reduce divergence in practice and result in more relevant information.

Question 2 – Transition provisions

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

3. ESMA agrees with the transition provisions. The narrow-scope amendment would lead to reclassifications into, or out of, investment property and this would result in a change in the measurement basis. According to paragraph 35 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, a change in the measurement basis is a change in an accounting policy and thus should be applied retrospectively.