

Transfers of Investment Property

Feedback to constituents – EFRAG Final Comment Letter

March 2016

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Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the Exposure Draft ED/2015/9 *Transfers of Investment Property* (the ‘ED’) on 25 March 2016. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG’s final comment letter.

Background to the ED

The IFRS Interpretations Committee (the ‘IFRS IC’) received a request to clarify whether paragraph 57 of IAS 40 *Investment Properties* allows a property under construction to be transferred from inventory to investment property when there is an evident planned change in use.

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.

Further details are available on the EFRAG [website](#).

EFRAG’s draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on 10 December 2015. In the draft comment letter, EFRAG welcomed and supported the amendment proposed in the ED, as it will reduce divergence in practice and, therefore, improve the quality of financial reporting under IFRS in regard to investment properties.

Comments received from constituents

EFRAG has received nine comment letters from constituents and considered by EFRAG in its discussions. These comment letters are available on the EFRAG [website](#).

The comment letters received came from national standard setters, a business organisation and an EU authority.

All respondents agreed with EFRAG’s tentative position.

EFRAG’s proposed final comment letter

EFRAG issued its final comment letter on 25 March 2016.

Considering the support expressed by constituents for the views expressed in its draft comment letter, EFRAG retained, in its final comment letter, its support for the amendment proposed in the ED.

EFRAG noted that two constituents suggested to include that the issue ought to have been dealt with as part of a batch of annual improvements. EFRAG agreed with the observation that is consistent with the view expressed by EFRAG in its response to the Request for Views *2015 Agenda Consultation* that there are too many narrow-scope amendments to standards.

EFRAG did not find useful though to include the comment in its comment letter.

Detailed analysis of issues, comments received and changes made to EFRAG’s final comment letter

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

EFRAG’s response to constituents’ comments

Proposed amendment

Proposals in the ED

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; 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.

EFRAG’s tentative position

EFRAG welcomed 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.

Constituents’ comments

All respondents agreed with EFRAG’s tentative position. A few respondents noted that the amendments should have been included in an Annual Improvement project.

Proposed EFRAG final position

After considering the feedback received, EFRAG retained its tentative views expressed in its draft comment letter:

- welcoming the IASB’s proposal to reinforce the principle;
- agreeing that the list of circumstances set out in paragraph 57(a)–(d) should be re-characterised as a non-exhaustive list; and
- recommending the addition of an additional example in paragraph 57.

EFRAG noted that two constituents suggested to include that the issue ought to have been dealt with as part of a batch of annual improvements. EFRAG agreed with the observation that is consistent with the view expressed by EFRAG in its response to the Request for Views *2015 Agenda Consultation* that there are too many narrow-scope amendments to standards.

EFRAG did not find useful though to include the comment in its comment letter.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

Transition provisions

Proposals in the ED

The IASB proposes to apply the amendment retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

EFRAG’s tentative position

EFRAG supported the proposed retrospective application of the proposed amendment as it 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.

Constituents’ comments

Nearly all respondents agreed with EFRAG’s tentative position. One respondent questioned whether the benefits of retrospective application would exceed the cost and therefore suggested prospective application.

EFRAG’s response to constituents’ comments

Proposed EFRAG final position

After considering the feedback received from respondents, including the general support for retrospective application, EFRAG maintained its tentative view that supported the proposed retrospective application of the proposed amendment.

APPENDIX: List of respondents

Table: List of respondents

Name of constituent¹	Country	Type / Category
Accounting Standards Committee of Germany	Germany	Standard Setter
Autorité des Normes Comptables	France	Standard Setter
European Securities and Markets Authority	Europe	European Regulator
Danish Accounting Standards Committee	Denmark	Standard Setter
Belgian Accounting Standards Board	Belgium	Standard Setter
Swedish Enterprise Accounting Group	Sweden	Business Organisation
Organismo Italiano di Contabilità	Italy	Standard Setter
Instituto de Contabilidad y Auditoría de Cuentas	Spain	Standard Setter
Norwegian Accounting Standards Board	Norway	Standard Setter

¹ Respondents whose comment letters were considered by the EFRAG Board before finalisation of the comment letter.