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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 21 March 2007, London

Project: Annual improvement process

Topic: Fair value of investment property held under a lease
(Agenda Paper 6C)

1. The staff have identified that the following issue would be most appropriately resolved via the annual improvements process (as agreed by the Board in July 2006).

Issue: Should IAS 40 be amended to clarify how to arrive at the carrying amount of an investment property held under a lease?

Staff recommendation

2. The staff recommend that the Board:
 - should add this issue to the annual improvements project; and
 - should amend IAS 40 as proposed in paragraph 8 of this paper.

Background

3. The staff have identified ambiguous wording in IAS 40 regarding the fair value of investment property held under lease. Paragraph 50 (specifically 50(d) states):

In determining the fair value of investment property, an entity does not double-count assets or liabilities that are recognized as separate assets or liabilities. For example:

(a) ...

(d) the fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognised lease liability, **to arrive at the fair value of the investment property for accounting purposes** (emphasis added).

4. Paragraph 50(d) suggests that adding back any recognised lease liability is required to give the fair value of an investment property held under lease. BC10 of IAS 40 indicates that this methodology was put in place as a practical expedient to counter the effect of using different measurement bases so that the net assets in respect of the leased interest are recorded at fair value.
5. The staff believe that it is the **carrying amount** of the investment property that should be calculated by adding back the recognised lease liability to the fair value of the leasehold interest in investment property.
6. The fair value of an investment property is the 'price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction'. This amount would take account of any liabilities relating to the investment property.
7. Therefore, the staff believes the statement in paragraph 50(d) of IAS 40 is misleading and should be amended.

Staff recommendation

8. IAS 40 should be amended as proposed in paragraph 8.
9. **Does the Board agree?**

Drafting

10. The staff recommend that IAS 40 should be amended as follows:

Measurement after recognition

Fair value model

In determining the fair value of investment property, an entity does not double-count assets or liabilities that are recognized as separate assets or liabilities. For example:

(a) ...

(d) the fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognised lease liability, to arrive at the ~~fair value~~ carrying amount of the investment property using the fair value model ~~for accounting purposes~~.

Basis for Conclusions on Proposed Amendments to IAS 40 *Investment Property*

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

Fair value of investment property held under a lease

- BC1 Paragraph 50(d) states that the fair value of an investment property under a lease is determined for accounting purposes by adding back any lease liability. The Board considered that this statement was misleading as it implied that the fair value of an investment property under a lease does not include its lease liability. Therefore, the Board proposes to amend paragraph 50(d) to clarify this wording.