



Project	Annual Improvements – 2009-2011 Cycle
Topic	IAS 40 – Transfers from Investment Property

Purpose

1. The purpose of this paper is to provide feedback to the Committee on the Board's discussion of this topic at the March 2010 board meeting.

Background

2. In 2008 the Board identified potentially inconsistent guidance in *IAS 40 Investment Property* regarding the classification and measurement of an investment property when management intends to sell the asset.
3. The guidance in paragraph 58 requires an entity to transfer a property from investment property to inventories when, and only when, there is a change of use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of the investment property without development it continues to treat the property as an investment property until derecognised.
4. This appears to conflict with guidance in paragraph 56:

Investment properties that meet the criteria to be classified as held for sale ... shall be measured in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
5. This issue was taken into the 2008 Annual Improvements process. The Exposure Draft *Improvements to IFRSs* (August 2009) proposed the requirement to transfer such properties to inventories be removed. The ED also included a requirement for further disclosures on all investment properties in line with

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRS Interpretations Committee.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the Committee or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the Committee or the IASB can make such a determination.

Decisions made by the Committee are reported in *IFRIC Update*.

Interpretations are published only after the Committee and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in *IASB Update*.

IFRS 5. The staff presented feedback on these proposals to the Committee in March.

6. The Committee's recommendation on the proposed improvement was discussed by the Board at its March 2010 meeting. These discussions are summarised below, in paragraphs 11 - 14, and include the Board's request for further deliberations by the Committee.

Meeting of the IFRS Interpretations Committee March 2010

7. The comment letter analysis of the annual improvements exposure draft was presented at the March meeting of the Committee. Of the comment letters received on the ED 50% of those which addressed the issue did not express support for the proposed amendments:
 - (a) Many considered the lack of clarity affected investment properties measured at cost as much as those measured at fair value.
 - (b) The proposed amendment would conflict with recent changes to *IAS 16 Property Plant and Equipment* requiring the transfer of assets, formerly held for rental, to inventory when they become held for sale.
 - (c) The interaction of the proposed amendments with IFRS 5 had not been comprehensively analysed.
 - (d) The IFRS 5 disclosures proposed were considered onerous and inappropriate when the criteria for classification as 'held for sale' were not met.
8. Of the comment letters received on the issue, a third answered yes to the question posed in the ED – 'Should a separate project be undertaken to address this issue?'
9. The comment letter analysis presented to the Committee in March 2010 included the following staff recommendations:
 - (a) the proposed amendment shouldn't be finalised
 - (b) the issue should be removed from the accounting improvements project

- (c) the issue should be included in a separate project.
- 10. The Committee accepted those recommendations.

Board decision March 2010

- 11. The Board discussed the Committee's decision at its March board meeting.
- 12. Some board members were concerned at the recommendation not to finalise the proposed amendment. In their view, adequate analysis had been prepared by the staff and the proposed amendment would represent an improvement to IFRSs.
- 13. The Board felt the issue needed to be addressed, but was reluctant to add another project to the agenda in the light of existing work plan commitments.
- 14. The Board requested that the issue be referred back to the Committee for further deliberation.

Staff recommendation

- 15. As a reminder of the complexities involved, the staff have summarised the current accounting requirement for transfers of investment properties. (Appendix 1- Recognition and Appendix 2 - Measurement Bases below.)
- 16. The staff will prepare more analysis to address the alleged inconsistencies and lack of clarity in the proposed amendments and to provide a more comprehensive review of the interaction between IAS 40 and other IFRSs.
- 17. No decision is requested of the Committee at this meeting, but the staff would welcome any comments the Committee have on this issue. The staff will present its recommendations to the Committee at its meeting in July, 2010.

Recognition of property**Appendix 1**

18. Properties can be recognised as different categories of asset, in accordance with a number of IFRSs, depending on their stage of completion and intended use.

Sold in course of business	<i>IAS 2 Inventories</i>
Developed or constructed for sale or lease	<i>IAS 2 Inventories</i>
Owner-occupied or being developed for owner occupation	<i>IAS 16 Property, Plant and Equipment</i>
Under construction for future use as investment property	<i>IAS 16 Property, Plant and Equipment</i>
Leased, but level of services provided deems it owner-occupied	<i>IAS 16 Property, Plant and Equipment</i>
Owned or leased property held to earn rentals or for capital appreciation or both	<i>IAS 40 Investment Property</i>
Existing investment property being developed for continued future use as an investment property	<i>IAS 40 Investment Property</i>
Property provided by lessor under operating lease (lessor accounting)	<i>IAS 40 Investment Property</i>
Property held for disposal without development, sale not highly probable	<i>IAS 40 Investment Property</i>
Fully developed property held for sale - highly probable to be sold	<i>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</i>

Measurement of investment property**Appendix 2**

19. The measurement bases applied to **transferred** investment properties differs between investment properties held at cost and those held at fair value.

Investment property held at cost

Transferred and recognised as	Measurement basis
<i>IAS 2 Inventories</i>	IAS 16 cost (assumed)
<i>IAS 16 Property, Plant and Equipment</i>	IAS 16 cost
<i>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</i>	Lower of carrying amount and fair value less costs to sell (IAS 40 para 56)
<i>IAS 40 Investment Property basis</i>	IAS 16 cost (IAS 40 para 56)

Investment property held at fair value

Transferred and recognised as	Measurement basis
<i>IAS 2 Inventories</i>	Deemed cost is fair value at date of transfer (IAS 40 Para 60)
<i>IAS 16 Property, Plant and Equipment</i>	Deemed cost is fair value at date of transfer (IAS 40 Para 60)
<i>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</i>	IAS 40 basis (IFRS 5 Para 5 (d)) (Fair value)
<i>IAS 40 Investment Property basis</i>	Fair value