STAFF PAPER

18–19 September 2012

IFRS Interpretations Committee Meeting

Project	IAS 40 *Investment Property*		
Paper topic	Accounting for telecommunication tower		
CONTACT(S)	Kenichi Yoshimura	kyoshimura@ifrs.org	+44 (0)20 7246 6905

Introduction

1. The IFRS Interpretations Committee (the Committee) received a request to clarify the scope of IAS 40 *Investment Property*. The objective of this Agenda Paper is to provide the Committee with an update on the staff's research and analysis to date on this issue. In addition, the staff are seeking to obtain preliminary views and guidance from the Committee on how the staff should approach this issue.

2. We requested information from the International Forum of Accounting Standard Setters (IFASS) to help us assess the Committee's agenda criteria. The request was still outstanding (due 6 September 2012) when this Agenda Paper was completed. We will provide the Committee with an update of the results of this outreach at the September meeting.

3. This Agenda Paper includes:

   (a) background information on the issue;

   (b) technical analysis;

   (c) outreach activities to date;

   (d) assessment against agenda criteria to date;

   (e) assessment against Annual Improvements criteria;

   (f) staff recommendation on the next steps;

(g) questions for the Committee.

(h) Appendix A—Annual improvement criteria analysis

(i) Appendix B—Outreach request

(j) Appendix C—Relevant technical resources

(k) Appendix D—Submission

Background of the issue

4. In August 2012, the Committee received a request to clarify whether a telecommunication tower in a jurisdiction should be accounted for as property, plant and equipment (PP&E) under IAS 16 *Property, Plant and Equipment* or as an investment property under IAS 40. Paragraph 5 of IAS 40 defines investment property as follows (emphasis added):

> Investment property is **property (land or a building-or part of a building-or both**) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for;
>
> (a) Use in the production or supply of goods or services or for administrative purposes; or
>
> (b) Sale in the ordinary course of business.

5. The submitter is seeking a clarification on:

   (a) whether the telecommunication tower should be viewed as a **'building'** and thus **'property'**, as described in paragraph 5 of IAS 40 above; and

   (b) how **the service element** in the leasing agreement and **business model of the entity** should be taken into consideration when analysing this issue.

6. The submitter states that an entity in the telecommunication tower leasing industry receives an order to build a tower in a specific location from telecommunication operators. Then, after the regulatory approval is obtained, the entity acquires a piece of land through a lease or purchase agreement and builds a tower, along with the facilities that are requested by the telecommunication operators.

7. As the owner of the tower, the entity rents spaces on the tower to the telecommunication operators who put their own equipment on the spaces. Under the local regulations, monopolising the tower is prohibited and it could therefore be used by multiple operators. The entity receives rent revenue from the operators along with revenue from maintenance services provided. The general lease term of the leases of the spaces in the tower is 10 years. The tower in this case consists of only steel frames and other supporting components (there are no solid walls or floors in the tower).

8. The tower could be in the form of either a permanent physical structure that is constructed in a specific location or a mobile facility that serves similar functions. However, the submission addresses the tower which is **permanently constructed in a specific location**. The submission also states that **the tower belongs to an entity whose business model is primarily leasing telecommunication towers**, and that the entity has **no association in any form with the telecommunication operators** except for the leasing agreements.

9. According to the submission, entities in the industry have two different views on the accounting for the telecommunication tower as follows:

   (a) **View A:** the tower should be accounted for as PP&E under IAS 16.

   The submitter states that supporters of View A argue that the physical characteristics of the tower are significantly different from a structure that is generally perceived as a building. They also argue that the main element of the arrangement is the supply of services which enables the tenants to create better telecommunication network in the area. Consequently, the tower should be construed as 'owner-occupied property' and accounted for under IAS 16.

   (b) **View B:** the tower should be accounted for as investment property under IAS 40.

   The supporters of View B think that the tower should be regarded as being similar to general office buildings from the perspective of the physical characteristics. This is because the tower has the functionality that spaces in the structure can be let to tenants to earn rentals even though the physical appearance of the tower is different from other types of structures that are generally perceived as buildings. In addition, they believe that the main element of the arrangement is leasing of spaces to tenants. The only services that could be viewed as ancillary services are, in this case, supply the maintenance services. Those services are generally insignificant to the arrangement as a whole.

10. The submitter thinks that the divergent interpretations are primarily caused by the fact that both IAS 16 and IAS 40 do not provide clear definitions or guidance on what qualifies as 'property'. **The lack of a definition for 'property'** has led entities in the industry to make a reference to the definitions of a building in various laws and regulations issued by regulators that are not necessarily the same. The submitter further states that this issue was also argued from the perspectives of **the service elements included in the leasing agreements** and **the business model of the leasing entities**. Considering the main business model of the entities, the main element of the arrangement is supply of services related to telecommunication network, rather than leases of spaces.

11. The submitter is concerned that this diversity would lead to the impairment of comparability of financial information—in particular, profit and loss figures—of entities in the industry, especially when the fair value model under IAS 40 is employed.

12. The submitter also raised concerns that this issue could be relevant to **other types of transactions or assets such as a warehouse and oil storage facility**. When analysing whether an oil storage facility falls within the scope of IAS 40, there could be circumstances in which it is not clear whether the oil storage facility is viewed as a 'building' under IAS 40. In addition, some may question whether the transaction should be characterised as the leasing of spaces in the storage or the supplying of services to the users of the storage.

13. In May 2012, this specific issue was discussed in the IASB Emerging Economies Group meeting[1]. The submitter informed us that most participants were of the

[1] Agenda paper 4 (http://www.ifrs.org/Meetings/Pages/EEG-meeting-May-2012.aspx)

view that the telecommunication tower in this case should be accounted for in accordance with IAS 16.

14. As stated in the submission, in the ongoing Lease project, the staff referred to this telecommunication tower issue in the Leases Working Group meeting[2] in January 2012 to seek inputs on the issue of whether the current definition of investment property in IAS 40 should be used to determine the accounting for a lease from a lessor's perspective. On the basis of the discussions in the Leases Working Group meeting, the staff prepared the Agenda Paper[3] for the February 2012 IASB meeting discussing this issue. This Agenda Paper also had the reference to this telecommunication tower issue. However, the Agenda Paper was not discussed by the IASB because the IASB tentatively decided to pursue a different approach to determine how a lessor would account for leases. That approach is no longer based solely on the definition of investment property.

15. For ease of reference, the text of the submissions is reproduced in Appendix D to this paper.

Technical analysis

16. We think that there are three major steps to take when deciding whether an item of PP&E falls within the scope of IAS 40:

Step 1: whether the item of PP&E is 'property'

Entities need to assess whether the item is 'property' as described in paragraph 5 of IAS 40. If not, the item of PP&E should be accounted for under IAS 16.

Step 2: whether ancillary services are significant ('owner-occupied property')

If the PP&E is classified as 'property' in Step 1, entities need to assess whether the property is held to earn rent or to earn capital appreciation or both, rather than for use in the production or supply of goods or services or for

[2] http://www.ifrs.org/Meetings/Pages/leases-WG-24-Jan-2012.aspx

[3] Agenda paper 2E (http://www.ifrs.org/Meetings/Pages/IASB-February-2012.aspx)

administrative purposes (ie 'owner-occupied property'). Paragraph 12 of IAS 40 states that if ancillary services provided are significant to the arrangement as a whole, the property would be considered to be owner-occupied property. 'Owner-occupied property' should be accounted for under IAS 16.

Step 3: whether equipment is an integral part of other investment property

Even if the item of PP&E was classified as equipment in Step 1, the equipment, which is an integral part of investment property, could be accounted for as part of the investment property (paragraphs 50(a) and 50(b) of IAS 40).

17. In the following paragraphs, we analyse how the criteria in each step described above should be applied to an item of PP&E using the telecommunication tower described in the submission as an example.

Step 1: whether the tower is 'property'

18. The supporters of View A argue that the physical characteristics of the tower are significantly different from those of a structure that is generally perceived as a building. For example, even if constructed as a permanent fixture on a piece of land, it is relatively easy to relocate the tower to other locations. In this sense, the tower can be viewed as being similar to equipment. Furthermore, the tower consists of only steel frames and other supporting components to serve a specific purpose in a telecommunication process. The physical features are similar to those of advertising boards and advertising towers that they think are generally accounted for as PP&E in practice.

19. However, the staff think that the telecommunication tower in this case should be viewed as a 'building' and thus 'property', as described in IAS 40. From the perspective of physical characteristics, even though there are no solid walls, floors, or roof in the tower, the tower is a permanent fixture constructed on a piece of land. We believe that whether a structure has walls or floors is not a significant factor when analysing whether the structure qualifies as 'building' under IAS 40. The tower in this case has spaces that can be let to multiple tenants. In this regard, we think that there is no major difference in the functionality of structure from other office buildings for the purpose of the scope analysis under IAS 40.

20. In addition, according to the submission, the cost incurred to dismantle, relocate, and reconstruct the tower is approximately 70 per cent of the total cost of the tower. It might be true that those costs incurred for the tower is relatively small compared to those for other types of structure. However, we think that this relocation cost is significant because there is not a significant difference in cost between moving the current tower and building a new tower.

21. On the basis of the analysis above, we are of the view that the tower in this specific situation should be classified as 'property' for the purpose of IAS 40.

22. Nevertheless, we agree with the concern expressed in the submission that the lack of clear definition of the term 'property' and 'building' under IFRSs could cause divergent interpretations on whether an item of PP&E qualifies as 'property' as used in paragraph 5 of IAS 40. In order to assess whether there are significant divergent accounting practices, we plan to extend our analysis to other types of transactions and assets using the result of the outreach activities.

Step 2: whether ancillary services are significant ('owner-occupied property')

23. According to the submission, those who support View A argue that the service provided in the arrangement is significant and should therefore be considered owner-occupied property in accordance with paragraph 12 of IAS 40. The term 'owner-occupied property' is defined in paragraph 5 of IAS 40 as follows:

> Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

They think that the main element of the arrangement is not leasing of spaces in the tower, but, instead, providing tenants with services that enable them to put their own transmitter devices in the tower to create network in the area. The steel tower only acts as a medium through which the services are provided for the tenants. This is similar to the owner-occupied hotel example described in paragraph 12 of IAS 40, in which hotel owners provide significant services to guests who stay in hotel rooms.

24. Furthermore, they argue that the entity's business model is the supply of services related to telecommunication network through the leasing arrangements. This means that the tower is used by the entity in the ordinary activities of its business model rather than for investment activities. Accordingly, they think that the tower should be accounted for as owner-occupied property.

25. In addition, they think that the telecommunication tower uses other assets, such as other towers and other supporting assets, in order to generate cash flows from the leasing arrangement. This is because a network can be created only through a continuous chain of towers that communicate signals. In this sense, the tower could be viewed as lacking the characteristics of investment property described in paragraph 7 of IAS 40, which states that "an investment property generates cash flows largely independently of the other assets held by an entity."

26. We note that paragraph 14 of IAS 40 recognises that significant judgement might be required in assessing whether ancillary services are significant to the arrangement as a whole. Paragraph 75(c) of IAS 40 requires an entity to disclose criteria developed by the entity to apply that judgement consistently when the classification is difficult. However, in this specific transaction, we are of the view that there is no significant ancillary service provided by a tower-leasing entity that would preclude the entity from accounting for the tower as investment property.

27. We think that the main element of the arrangement is providing tenants with spaces to which the tenants can attach their own devices for better network access in the area. The tower-lessor entity does not use its own device to provide the access to the network. Even though the submitter states that maintenance services are provided, these are generally considered to be insignificant to the arrangement as a whole in a typical office-lease arrangement. Unlike the hotel example in paragraph 12 of IAS 40, the value of the tower (property) to the entity is mostly derived from the future cash flows generated from the leasing of the spaces. In this case, there is little synergy from other services that the owner provides for the tenants. In this regard, we think that fair value information of the tower, which represents future cash flows from the leasing arrangements, would be relevant to users.

28. Furthermore, we think that the business model of the entity is irrelevant in the analysis of the scope of IAS 40. We think that the main purpose of IAS 40 is to provide fair value information of property that is used by an entity for rental or for capital appreciation or both, regardless of the entity's main business models. This is indicated in paragraph B34 of Basis for Conclusions on IAS 40, which states:

> […]. The Board believes that property used for similar purposes should be subject to the same accounting treatment. Accordingly, the Board concluded that no class of entities should use the fair value model for their owner-occupied property. […]

We think that the intention of the IASB is to focus on the use of the property rather than the business model of the entity. The property used for the same purpose should be accounted for consistently, irrespective of which industry the entity belongs to.

29. In addition, we think that the cash flows generated from a tower are independent from other assets. There is generally an arrangement between the entity and each tenant under which a particular space is leased to that tenant. The network chain is built by the devices installed in the tower by the operators. Accordingly, even if the owner of a tower changes, we think that future cash flows generated from the tower would not change significantly.

30. Consequently, we think that there is no significant ancillary service in this specific situation. IAS 40 focuses on the use of a property for the purpose of determining whether the property is 'owner-occupied property'. We think that the main element in the arrangement is the leasing of spaces to telecommunication operators. The maintenance services are generally insignificant to the arrangement as a whole. On the other hand, there might be other cases in which the determination of whether ancillary services are significant is difficult and requires significant judgement by the entity. In that case, the entity needs to exercise its own judgement and, as appropriate, disclose the criteria used by the entity as required in paragraph 75(c) of IAS 40.

Step 3: whether the tower is an integral part of the other investment property

31. Paragraph 50 of IAS 40 prohibits double-counting of the fair value of assets or liabilities that are recognised as separate assets or liabilities in the following examples as follows:

> (i) equipment such as lifts or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognised separately as property, plant and equipment.
>
> (ii) if an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental income relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognise that furniture as a separate asset.
>
> (iii) […].

32. Even though paragraph 50 of IAS 40 provides guidance for the measurement of investment property, we think that this leads to an accounting practice for equipment that is an integral part of investment property to be accounted for as part of investment property.

33. Consequently, if the tower was classified as equipment in Step 1, and if a piece of land on which the tower is constructed is classified as investment property, the tower could be accounted for as part of the investment property in accordance with paragraph 50 above. We think that the tower could be viewed as an integral part of the piece of land. This is because the rent is paid for the piece of land by the lease revenue from the tower, which enables the operators to gain better access to the network in the area.

Summary of technical analysis in accordance with IAS 40

34. On the basis of the discussions above, we believe that the telecommunication tower described in the submission should be accounted for as investment property under IAS 40. The physical characteristics of the tower are similar to other general office buildings in that spaces in the structure can be leased to tenants for

rent revenue and that costs incurred for relocation would be significant relative to the cost of the structure. Accordingly, we think the tower should be viewed as 'building' for the purpose of IAS 40 (Step 1). In addition, we do not think that there are significant ancillary services that would preclude entities from concluding that the tower is an investment property (Step 2). The main element of the arrangement is the leasing of spaces in the tower. The tower is used for the leasing of spaces and the focus of IAS 40 is the use of property itself. The maintenance services provided by the owner of the tower are generally insignificant to the lease arrangement as a whole.

35. However, as pointed out in the submission, we think that there could be other instances where it is difficult to decide what types of assets and transactions should be accounted for in accordance with IAS 40. We think that this results primarily from the lack of clarity in the definition of 'investment property' under IAS 40, which includes the terms 'building' and 'property'. In order to assess whether there are significant divergent accounting practices caused by the ambiguity of the terms, we plan to perform a further analysis on other types of transactions and assets using the result of the outreach activities.

Potential effect on other IFRSs and ongoing projects of defining 'property'

36. If it turns out that some amendments should be made to IFRSs to clarify the definition of 'property', we will need to consider whether the amendments should be done within the context of IAS 40 only or more broadly. Consequently, we assessed potential impacts that clarifying the terms 'building' and 'property' could have on other Standards.

37. The clarification of the term 'property' would result in the clarification of the scope of IAS 40, which in turn affects the scope of IAS 16, because the scope of the Standards relate to each other. However, this effect on the scope of IAS 16 is not a consequential effect of the amendments, but rather, the effect intended by the amendments.

38. On the other hand, we note that, in accordance with IAS 16, an entity is required to choose either the cost model or the revaluation model as its accounting policy

and apply that policy to an entire class of PP&E (paragraph 29 of IAS 16). Furthermore, paragraph 37 of IAS 16 provides examples of the class of PP&E, which include 'land' and 'land and building'. We also note that the classification of PP&E would affect the disclosure as required by paragraph 73 of IAS 16. Consequently, for example, if the classification of an item of PP&E was changed from 'building' to 'equipment' as a result of the clarification of the definition of 'building', some entities might need to change their accounting policy for an item under IAS 16.

39. In addition, we note that, in the active Lease project, the IASB tentatively agreed on a new model for lease accounting. The full text of *IASB Update* in June 2012 is reproduced in Appendix C.

40. Under this new model, the guidance for determining (a) how a lessor accounts for a lease and (b) how a lessee recognises lease-related expenses in profit or loss depends, to a large extent, on whether the lease is a lease of property or a lease of an asset other than property.

41. On the basis of the analysis above, we think that clarifying the term 'property' for the purpose of the entire IFRSs would affect requirements in other Standards and the ongoing Lease project. Consequently, we think that the clarification of the term 'property', if necessary, should be limited to the context of the scope of IAS 40.

Alternative approaches to this issue

42. On the basis of the technical analysis in accordance with IAS 40 and analysis of the impacts of clarifying the term 'property' on other Standards and ongoing other projects, we think that approaches presented in the following paragraphs could be taken if it turns out that we should propose amendments to the existing IFRSs.

43. As discussed above, we think that the concern expressed in the submission is primarily caused by the lack of clarity in the scope of IAS 40. Accordingly, potential approaches would be to:

- **Alternative 1:** define the term 'building' or 'property' or both only within the context of IAS 40

- **Alternative 2:** amend the definition of the term ‘investment property’ under IAS 40
- **Alternative 3:** add examples or application guidance to IAS 40 to ensure the consistent application of the requirement in paragraph 5 of IAS 40.

44. **Alternative 1** is to propose amendments to define the term ‘building’ or ‘property’ or both only within the context of IAS 40. This alternative would be able to deal with broader issues than merely adding examples or guidance (Alternative 3). However, this approach would involve the creation of a definition of the terms which we think would need significant time and resources.

45. **Alternative 2** is to propose amendments to better define the scope of IAS 40 in a way that the definition of the term ‘investment property’ is made largely independent on the meaning of the term ‘building’ or ‘property’ or both. This alternative would involve changing the wording of the definition of the term ‘investment property’ in order to achieve consistent application of the requirements regarding the scope of IAS 40. This alternative would be able to deal with broader issues than merely adding examples or guidance (Alternative 3). However, even though this alternative does not involves the creation of a definition of a term, it still needs the review of the definition of the term ‘investment property’, which we think would require at least as much time and resources as Alternative 1.

46. **Alternative 3** is to propose amendments to add illustrative examples or application guidance to IAS 40 to make sure that entities apply the requirements in paragraph 5 of IAS 40 consistently. Because this approach does not involve the review of the definitions of the terms under IAS 40, we think that it is relatively easier to reach a consensus on the amendments. However, this alternative could fail to resolve the issue if it turns out that there are significant difficulties in applying the principle, which would cause diversity in practice for a broad range of property and transactions.

47. On balance, we are of the view that Alternative 3 is the most appropriate approach if we should propose amendments to resolve this issue.

Outreach activities

48. We requested information from the IFASS in order to help assess the Committee's agenda criteria. Specifically, we asked:

    (a) In your jurisdiction, do you have similar transactions to those described above? If similar, but not identical, please tell us about the differences.

    (b) If you answered 'yes' to question 1, what is the prevalent accounting for the transactions? In other words, are entities accounting for the tower or similar assets as PP&E under IAS 16 or as investment property under IAS 40?

    (c) On the basis of your response to question 2, to what extent do you observe diversity in practice for accounting for these types of transactions?

    (d) In your jurisdiction, are you aware of any significant divergent interpretations on whether any other type of assets other than those described above (eg oil storage tank, satellite, warehouse, etc) qualifies as 'property' under IAS 40, which you think leads to significant divergence in practice?

    (e) If you answered 'yes' to question 4, please describe briefly the type of transactions and the divergent interpretations.

49. Excerpts from the outreach request are attached as Appendix B to this paper. The request was still outstanding (due 6 September 2012) when this Agenda Paper was completed. We will provide the Committee with any updates of the results of this outreach at the September meeting.

Assessment against agenda criteria

50. In this section, we assess the submission against the agenda criteria of the Committee as follows:

    (a) The issue is widespread and has practical relevance.

(b) The issue indicates that there are significant divergent interpretations (either emerging or existing in practice).

(c) Financial reporting would be improved through the elimination of the diverse reporting methods.

(d) The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process.

(e) It is probable that the Committee will be able to reach a consensus on the issue on a timely basis.

(f) If the issue relates to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project?

51. We will assess criteria (a)–(c) once the outreach activity is completed. Any update on the assessment of the criteria will be provided at the September meeting together with the update on the outreach. As stated above, we requested information on whether there are divergent accounting practices not only for telecommunication towers as described in the submission but for other types of assets and transactions.

52. If it turns out that criteria (a)–(c) are met for the accounting for the telecommunication tower or other types of assets or both, and if the diversity is caused by the ambiguity of the scope of IAS 40, we think that as discussed above, Alternative 3 should be taken to resolve this issue. We think that adding an example or guidance would not involve the review of fundamental requirements in IAS 40 and would therefore meet the criteria (d) and (e). On the other hand, if Alternative 1 or Alternative 2 is taken, we think that the amendment would result in amending the definition of ‘investment property’. The definition of ‘investment property’ is fundamental to the determination of the scope of IAS 40, and therefore, the amendments could be regarded as amendments of a principle. In this regard, we think that criteria (d) and (e) would not be met for Alternative 1 or Alternative 2

53. For criterion (f), taking into consideration the IASB's discussions and tentative decisions in relation to IAS 40 and IAS 16, we are not aware of any forthcoming amendments that would affect the issue discussed in this Agenda Paper.

54. On the basis of the discussions above, we think that this issue would meet the Committee's agenda criteria under the Alternative 3 approach if criteria (a)–(c) are met.

Assessment against Annual Improvements criteria

55. If the IASB decides to amend relevant requirements, that amendment could be the clarification of the scope of IAS 40. As mentioned above, if Alternative 1 or Alternative 2 is taken, such an amendment could be viewed as an amendment of an existing principle. Consequently, in that case, we think that the amendment should be performed in a separate amendment project rather than in the Annual Improvements project. However, if Alternative 3 is taken, we think that the amendment would meet the Annual Improvements criteria. The details of the analysis are shown in Appendix A.

Staff recommendation

56. In summary, we think that:

    (a) The telecommunication tower in the specific transaction in the submission should be accounted for as investment property under IAS 40.

    (b) However, even though our outreach is not completed, there might be situations in which it is difficult to determine whether an item of PP&E qualifies as 'property' under IAS 40.

    (c) This is because of the ambiguity of the definition of 'investment property' under IAS 40, which includes the terms 'building' and 'property'.

(d) If it is determined that amendments to IFRSs are required, Alternative 3 described in paragraph 43 should be taken.

(e) Even though it depends on the results of our outreach activities, this issue could meet the Committee's agenda criteria under the Alternative 3 approach.

(f) The amendments under the Alternative 3 approach would meet the criteria for Annual Improvements project.

57. Consequently, if the issue satisfies the criteria of (a) to (f) in paragraph 50, we will present a proposed amendment for the Annual Improvements project in a future meeting. If it turns out, however, that the issue does not satisfy those criteria, we will recommend that the Committee should not add the issue to its agenda. In that case, we will present a draft tentative agenda decision at the September Committee meeting.

Questions for the Committee

Question 1
Does the Committee agree with our analysis of this issue, which is summarised in paragraph 56?

Question 2 (if agreed with question 1)
Does the Committee agree with our recommendation in paragraph 57?

Appendix A—Annual Improvement criteria analysis

A1. In planning whether an issue should be addressed by amending IFRSs within the Annual Improvements project, the IASB assesses the issue against certain criteria. All the criteria (a)–(d) must be met to qualify for inclusion in Annual Improvements. We have assessed the potential amendment against the Annual Improvements criteria for each approach described in paragraph 43 of this Agenda Paper, which are reproduced in full below:

Annual Improvements criteria	Staff assessment of the proposed amendment
(a) The proposed amendment has one or both of the following characteristics: (i) clarifying—the proposed amendment would improve IFRSs by: • clarifying unclear wording in existing IFRSs; or • providing guidance where an absence of guidance is causing concern. A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle. (ii) correcting—the proposed amendment would improve IFRSs by: • resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirements should be applied; or • addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs. A correcting amendment does not propose a new principle or a change to an existing principle, but may create an exception from an existing principle.	(a) Alternative 1—No Alternative 2—No Alternative 3—Yes The potential amendment under the approaches in Alternative 1 and Alternative 2 would result in amendments of the definition of 'investment property', which provides a principle for the determination of the scope of IAS 40. Consequently, the potential amendment could be regarded as a change to an existing principle for Alternative 1 and Alternative 2. However, under the Alternative 3 approach, the amendment would be limited to the clarification of principles under IAS 40, and therefore, would meet this criterion.
(b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.	(b) Alternative 1—No Alternative 2—No Alternative 3—Yes

	If Alternative 1 or Alternative 2 is taken, the issue would not be sufficiently narrow in scope because the issue could be related to the underlying principle for IAS 40. On the other hand, the Alternative 3 approach would meet this criterion because the consequences of adding examples or guidance can be well-considered.
(c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.	(c) Alternative 1—No Alternative 2—No Alternative 3—Yes Under the approaches in Alternative 1 and 2, we do not think that the IASB will reach a conclusion on this issue on a timely basis, because the issue would involve review of the definition of 'investment property' which provides a principle for IAS 40. Under the Alternative 3 approach, we think the IASB will be able to reach conclusion on a timely basis because the amendment would be limited to providing guidance to the existing principle under IAS 40.
(d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.	(d) Alternative 1—Yes Alternative 2—Yes Alternative 3—Yes There are no current projects to address this issue.

Appendix B—Outreach request

Dear all,

In August 2012, the IFRS Interpretations Committee received a request to clarify whether a telecommunication tower should be accounted for as property, plant and equipment (PP&E) under IAS 16 Property, Plant and Equipment or as investment property under IAS 40 Investment Property. The formal submission is still outstanding, but the issue is described in a paper that was discussed in the May IASB Emerging Economies Group (the "IASB EEG") meeting, which is attached. We would be very grateful if you could assist us with answers to the following questions.

Description of the transaction

The agenda paper used in the IASB EEG meeting states that an entity in the telecommunication tower leasing industry receives an order to build a tower in a specific location from telecommunication operators that are unrelated parties to the entity. Then, after the regulatory approval is obtained, the entity acquires a piece of land through a lease or purchase agreement and builds a tower along with the facilities that are requested by the telecommunication operators. As an owner of the tower, the entity rents spaces on the tower to the telecommunication operators who put their own equipment on the spaces. Under the local regulations, monopolising the tower is prohibited and it could therefore be used by multiple operators. The entity receives rent revenue from the operators along with revenue from maintenance services provided. The general lease term of the leases of the spaces in the tower is 10 years. The tower in this case is permanently constructed in a specific location, and consists of only steel frames and other supporting components (there are no solid walls or floors in the tower).

Current practice

According to the agenda paper, some entities in the tower leasing industry account for the tower as PP&E under IAS 16 while others view the tower as investment property as defined in paragraph 5 of IAS 40.

The EEG agenda paper states that this divergent practice stems primarily from the lack of a clear definition of, or guidance on, what qualifies as 'property' more specifically, on what qualifies as a 'building' in the definition of investment property in IAS 40.

For further details I have attached the agenda paper used in the IASB EEG meeting in May 2012. You can access further information on the meeting including recording at http://www.ifrs.org/Meetings/Pages/EEG-meeting-May-2012.aspx.

Questions

In the context of these requests, I would very much appreciate your observations on the following aspects of the issues:

1. In your jurisdiction, do you have similar transactions to those described above? If similar, but not identical, please tell us about the differences.
2. If you answered 'yes' to question 1, what is the prevalent accounting for the transactions? In other words, are entities accounting for the tower or similar assets as PP&E under IAS 16 or as investment property under IAS 40?
3. On the basis of your response to question 2, to what extent do you observe diversity in practice for accounting for these types of transactions?
4. In your jurisdiction, are you aware of any significant divergent interpretations on whether any other type of assets other than those described above (eg., oil storage tank, satellite, warehouse, etc.) qualifies as 'property' under IAS 40, which you think leads to significant divergence in practice?
5. If you answered 'yes' to question 4, please describe briefly the type of transactions and the divergent interpretations.

At this stage of the process I am especially interested in the observations that you have made in practice with respect to the questions above, but if you would like to provide other comments please feel free to do so.

I would appreciate receiving your input on this issue by **6 September 2012**.

Best regards,

Appendix C—Relevant technical resources

The followings are excerpts from the June 2012 IASB Update (emphasis added):

Leases

Lessee accounting

The IASB and the FASB discussed lessee accounting, and whether there should be different lease expense recognition patterns for different leases. The boards tentatively decided that a lessee should account for:

a. some leases using an approach similar to that proposed in the 2010 Leases exposure draft; and

b. some leases using an approach that results in a straight-line lease expense (straight-line approach).

Twelve IASB members and six FASB members agreed.

The boards also tentatively decided that a lessee should distinguish between these two different types of lease on the basis of whether the lessee acquires and consumes more than an insignificant portion of the underlying asset over the lease term. That principle should be applied by using a practical expedient based on the nature of the underlying asset as follows:

a. **Leases of property** (land or a building—or part of a building—or both) should be accounted for using the straight-line approach, unless:

i. the lease term is for the major part of the economic life of the underlying asset; or

ii. the present value of fixed lease payments accounts for substantially all of the fair value of the underlying asset.

b. **Leases of assets other than property** should be accounted for using an approach similar to that proposed in the 2010 Leases exposure draft, unless:

i. the lease term is an insignificant portion of the economic life of the underlying asset; or

ii. the present value of the fixed lease payments is insignificant relative to the fair value of the underlying asset.

All FASB and IASB members agreed.

Lessor accounting

The boards discussed lessor accounting, and tentatively decided to change the tentative decisions on the lessor accounting model that is used to determine when the receivable and residual approach would apply. All FASB members and 12 IASB members agreed to change the tentative decisions.

The boards tentatively decided <u>that a lessor should distinguish between leases to which the receivable and residual approach applies and leases to which an approach similar to operating lease accounting applies</u>. The distinction would be made by using the same criteria as noted above for lessee accounting. Consequently, a lessor would apply the receivable and residual approach to leases for which the lessee acquires and consumes more than an insignificant portion of the underlying asset over the lease term. Four FASB members and eleven IASB members agreed.

Appendix D—Submission

Indonesian Accounting Standards Board
Indonesian Institute of Accountants

Indonesian Accounting Standards Board
Indonesian Institute of Accountants

Accounting for Telecommunication Tower in Indonesia

Issue Paper

- August 2012 -

EXECUTIVE SUMMARY

The Indonesian Accounting Standards Board (*Dewan Standar Akuntansi Keuangan* – DSAK IAI) is confronted with a multi interpretation issue regarding accounting treatment for telecommunication tower. Entities in the telecommunication tower leasing industry have different interpretations on how tower should be defined, recognised and thus accounted for (property, plant or equipment under IAS 16 *Property, Plant and Equipment*, or investment property under IAS 40 *Investment Property*). One potential significant effect of this is the different profit and loss figure when the transaction is measured under revaluation model (IAS 16) and fair value model (IAS 40). This gives significant impact on the comparability among entities in the industry, and more importantly different accounting treatments of transactions that in substance are the same and have similar economic consequences.

Tower could be in the form of either a physical structure permanently constructed in a specific location or a mobile facility that serve similar functions with an advantage in mobility. The scope of this Paper is specifically on the tower permanently constructed in a specific location, belongs to entities which engage primarily in telecommunication tower leasing, and with no association in any form with telecommunication operators entities.

Definition of property is the most important issue raised by the industry, whether tower can be defined as a building, and thus property, under either IAS 16 or IAS 40. The sentiment is that neither IAS 16 nor IAS 40 provides clear definition or guidance on what constitutes as a property. Because of this, entities in Indonesia made reference to the definitions of building in various laws and regulations issued by regulators in Indonesia, which in itself creates another issue due to the differences between the definitions. This issue is also relevant for assets other than telecommunication tower, depends on the context, such as warehouse or oil reserve/storage. Strong demands are raised for IASB to provide clearer definition and guidance of assets that can be classified as a property. Perception on what a building is might not be the same in different jurisdictions, thus it is important to have a set of clear definition and guidance that can be accepted and applied in most jurisdictions, to avoid this multi interpretation issue.

Other perspectives raised by the industry are relocation of tower, ancillary service element in the agreement, and the independency of tower (from other assets) in revenue generation process. These along with the issue with the definition of property are the basis used by the industry in raising this multi interpretation issue.

I. INTRODUCTION

1. In September 2011, DSAK IAI received a request to clarify the appropriate accounting treatment for telecommunication tower, whether it should be accounted under IAS 16 or IAS 40. The request came from the Indonesian Capital Market and Financial Institution Supervisory Agency as one of the regulators in Indonesia, who received inquiries from some entities in the telecommunication tower leasing industry.
2. DSAK IAI conducted discussions with representatives from regulators, accounting firms, and most importantly relevant entities to obtain more information on the issue.
3. This Paper presents the different point of views on the accounting treatment for tower raised by some entities in the industry, and some concerns of DSAK IAI with regard to this multi interpretation issue.
4. The scope of this Paper is specifically on tower permanently constructed in a specific location, belongs to entities which engage primarily in telecommunication tower leasing, and with no association to telecommunication operators entities.
5. This Paper is organised as follows:
   a) Introduction to the Issue Paper;
   b) Reasons for raising this issue;
   c) Analysis
      i. Definition of property under IAS 16 and IAS 40;
      ii. Contrasting views raised by the industry; and
      iii. Current development in the IASB – FASB project.
   d) Concerns raised by DSAK IAI.

II. REASONS FOR RAISING THIS ISSUE

1. As explained in the Agenda Consultation 2011 of the IASB, one of the five strategic areas driving the work of IASB is to improve consistency and quality of the application of IFRSs. This implementation issue is one key factor in ensuring the success of IFRSs convergence in different jurisdictions, each with its own sets of characteristics, local regulations, common practices, and problems.
2. Indonesia as the only G-20 member from the South East Asia region is well aware of the importance in adopting or converging to IFRSs, as the recognised global sets of financial reporting standards. As of 1 January 2012, the Indonesian FRS has been converged to IFRSs.
3. During the convergence process, DSAK IAI is confronted with a multi interpretation issue regarding accounting treatment for tower. Entities in the industry have different interpretations on how tower should be defined, recognised and thus accounted for, whether it should be treated as a property, plant or equipment under IAS 16 or investment property under IAS 40. One potential significant effect of this is different profit and loss figure when the transaction is measured under the revaluation model (IAS

16) and fair value model (IAS 40). This gives significant impact on the comparability among entities in the industry, and more importantly different accounting treatments of transactions that in substance are the same and have similar economic consequences.

4. Domestic (Indonesian) law concerning the construction and utilisation of tower governs that due to the efficient and effective use of space, the utilisation of tower should be shared. The law rules that tower should be used not only by one telecommunication operator. The owner of tower should lease the tower to telecommunication operators based on its capacity. Tower monopolisation is prohibited by the law.
5. The common business practice used by entities in the telecommunication tower leasing industry in Indonesia is as follows:

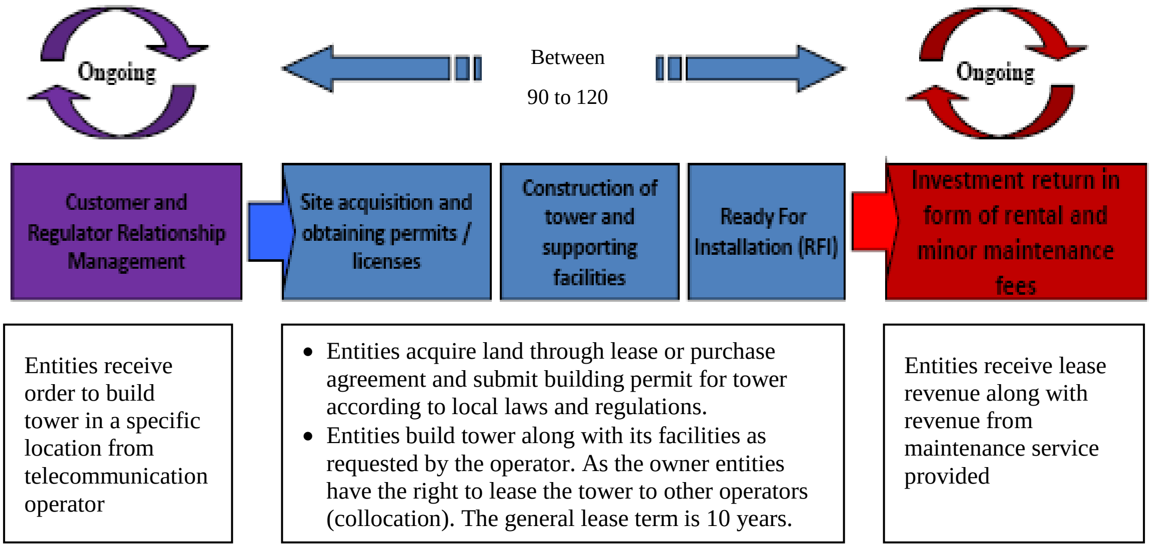

Illustration – Common business practice of the industry in Indonesia

6. Other than the depiction above, entities are also allowed by law to build towers without order from the operators as long as permissions from relevant Government institutions are obtained.

III. ANALYSIS

<u>Definition of Property under IAS 16 and IAS 40</u>

1. In defining what can be classified as a property, the two main references introduced in IFRSs are those stated in IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*.
2. Paragraph 6 of IAS 16 defines property, plant and equipment as follow:
   *"Property, plant and equipment are **tangible items** that:*
   *a) are **held for use** in the **production or supply of goods or services**, for **rental** to others, or for **administrative purposes**; and*
   *b) are expected to be used during **more than one period**"*

3. The main characteristics that must be satisfied in order for a tower to be classified as a PPE under IAS 16 are tangible, occupied by the entity, used in the ordinary course of business, and expected to last more than one year.
4. Paragraph 5 of IAS 40 defines investment property as follow:

   *"Investment property is property (**land or a building—or part of a building—or both) held** (by the owner or by the lessee under a finance lease) to **earn rentals** or for **capital appreciation** or both, rather than for:*
   a) use in the production or supply of goods or services or for administrative purposes; or
   b) sale in the ordinary course of business."
5. The main characteristics that must be satisfied in order for a tower to be classified as a PPE under IAS 40 are that it must be a property (land or a building—or part of a building—or both), not occupied by the owner, and held to earn rental and/or capital appreciation.
6. Under IAS 40, property consists of either building or land, part of building, or both. IAS 16 and IAS 40 do not provide a clear definition and / or set of characteristics of what can be classified as a building. This lack of clarity led to entities in the industry to make references to the definition of building in various laws and regulations issued by different regulators.
7. The question is on how certain physical structures could be classified as building, and thus property, under either IAS 16 or IAS 40. The scope of this particular issue is not only limited to the telecommunication tower, as raised in this Paper. There are circumstances, depending on the agreement, where it is less clear to define whether certain assets can be considered as a property. An example for this is how to define an oil storage facility, in an agreement where such facility is leased for certain period. The first question asked would be whether such facility can be defined as a property (part of a land or building), or mere equipment? Where to draw the line between the two? And what is actually being provided by the lessor? Is it a certain space leased as a storage media, or sale of service in the form of storing the lessee's oil reserve?
8. Use of asset in a lease or rental agreement is acknowledged in both IAS 16 and IAS 40. Clearest separation between the two mostly based on the ancillary service element involved in the agreement. Depending on the different point of view, in a telecommunication tower leasing transaction, and even in the oil storage facility example, both argument can be raised whether to treat this according to IAS 16 or IAS 40. An entity could see its transaction as a lease transaction and thus treat the related asset according to IAS 40, while another entity with similar transaction could see it as a sale of service transaction and account the asset under IAS 16.

Contrasting Views Raised by the Industry

<table>
<tr><th rowspan="2">CRITERIA</th><th colspan="2">TELECOMMUNICATION TOWER</th></tr>
<tr><th>AS PROPERTY, PLANT AND EQUIPMENT</th><th>AS INVESTMENT PROPERTY</th></tr>
<tr><td rowspan="2">Definition of Property</td><td>Tower is a tangible asset used by the entities in their ordinary activities, in line with their business model, which is to generate revenue from leasing arrangement with telecommunication operators as their tenants. It is generally expected to be used during more than one period.</td><td>Tower is a property held by the entities to generate revenue from the leasing arrangement with telecommunication operators as their tenants, and not used by the entities in their ordinary activities. Entities also expect some sort of value appreciation through appreciation in the value of the tower, where generally the value of a tower will increase along with the lease frequency – an idle tower (non-leased) does not hold significant value for the owner.</td></tr>
<tr><td>Based on Indonesian tax regulation, income earned from lease of land and/or building is levied by a deemed (final) tax. The regulation states the scope of building that is levied by the deemed tax system, but based on the regulation tower is outside the scope of the regulation.</td><td>Based on the definition of tower as stated by the Ministry of Communication and Information

Tower is a special building designed and constructed specifically for telecommunication service purpose, functioned as supporting structure to attach telecommunication equipments.

Permit to construct tower is permit to construct building under required laws and regulations.

Furthermore, there is another tax regulation that stipulates that (telecommunication) towers are regarded as special</td></tr>
</table>

		building object. Based on this regulation, a tower is subject to land and building tax which has to be paid annually. This regulation is applicable to all companies that operate telecommunication tower.
	Based on the company classification as defined by the Indonesian Stock Exchange (ISE), entities with the main business of tower leasing are classified under the Infrastructure, Utilities & Transportation Companies and not under the Property, Real Estate and Building Construction Companies.	Based on the definition of tower as stated in a joint law as issued by the Ministry of Communication and Information, Ministry of Home Affairs, and Ministry of Public Works *Tower is a structure constructed for public purposes on a land, or a building constructed for public purposes with typically steel structure, where the function, design, and structure are meant as supporting structure to attach telecommunication equipments.* *Permit to construct tower is permit to construct building issued by local Government to the telecommunication tower owners to either construct new towers or modify towers based on required administrative and technical requirements.*
Physical Characteristics	Tower even if permanently constructed is similar to equipment in a sense that if required, it could be relocated to other locations. Some of the considerations raised for this are: 1. Should it be required and considered to be beneficial, technically speaking, entities could dismantle, relocate	Tower is characteristically similar to a building in a sense that it is permanently established / constructed in a specific location. Some of the considerations raised are: 1. From the perspective of practicality, generally there is no intention to relocate unless required by certain laws or regulations issued by the Governments.

	and reconstruct the tower in other locations. This process is considerably easier compared to relocating other assets or structures that are generally considered to be a building. 2. From the economic perspective, entities could always consider whether the benefit is significantly higher compared to the potential costs of relocating the tower.	2. From the economic perspective, the costs incurred to dismantle, relocate, and reconstruct the tower is considerably significant (approximately 70% of the total costs of the tower). 3. From the technical perspective, the decision to construct a tower in a particular area is based on the quality of networks available as part of the network of towers available in that particular area. Relocating the tower would affect the quality of the network coverage (network interruption), which would affect tenants' decision in leasing a particular space on a particular tower in a particular area. Several phases performed in constructing a tower are: a) Site survey; b) Site (land) acquisition, including permit; c) Construction, Mechanical and Electrical (CME); and d) Commissioning. From cost structure point of view, CME phase contributes significant cost to the construction process.
	Tower is a mechanical structure consisting of steel structure	There are no physical limitations in dimension or shape on

	and other supporting components used to serve a specific purpose in a telecommunication process. This can be considered similar in characteristics to advertising board / tower (space), which in practice is accounted as equipment (PPE).	what constitutes a building. An example for this would be a house constructed on a knock-down basis, which is still considered a building. A tower could be seen to be similar to a knock-down house in this sense.
Telecommunication Tower as an Integral Part of a Building / Land	Tower is closer in characteristics to those of equipment since it is mobile as it is not permanently attached to a particular building or land. Also, what is considered to be an integral part could be seen from a perspective where a particular land or building would generally still serve its functions regardless of whether a tower is attached to it.	Based on the definition as stated by the Ministry of Communication and Information, Ministry of Home Affairs, and Ministry of Public Works *Telecommunication tower is a structure that is constructively attached to a building, thus it can be considered to be an integral part of a building or land on where it is constructed.* The value of the lease arrangement consists of components representing the value of the land or building where the tower is constructed, the value of the networks available in that particular location, and the value of the tower. This illustrates how tower is integrated with the building or land where it is constructed.
Ancillary Service Element	<u>Paragraph 12 of IAS 40</u> *"In other cases,* ***the services provided are significant****. For example, if an entity owns and manages a hotel, services provided to guests are significant to the arrangement as a*	<u>Paragraph 11 of IAS 40</u> *"In some cases, an entity* ***provides ancillary services*** *to the occupants of a property it holds. An entity treats such a property as investment property* ***if the services are***

	whole. Therefore, an owner-managed hotel is owner-occupied property, rather than investment property." The service provided in the arrangement between the entities and the customer / tenant is considered to be significant. Taking the example of the owner-managed hotel, the entities acts as both the owner of the tower leased by the tenant and the manager providing the service bought by the customer in the form of access to the network available in the area where the tower is constructed. The service is considered to be the main element bought by the tenant, where the physical tower only acts as the media just as a hotel room in the owner-managed hotel example. In addition, the owner is the party that operate and manage the tower. Tenants have no power to manage/operate the tower and have no physical access to the tower. Tenants only place their transmitter-receiver device and responsible only for the device, not to the tower. This condition is similar to an owner-managed hotel example.	***insignificant to the arrangement as a whole**. An example is when the owner of an office building provides security and maintenance services to the lessees who occupy the building."* Typical lease arrangement would include a portion of "service" where the entities would be responsible for the routine maintenance, security, and other things as specified in the arrangement. Although entities provide these services they are considered to be insignificant to the arrangement as a whole (generally ranges between 5 and 10% of the overall value of the arrangement). Other example similar to this type of arrangement is maintenance and security service provided by building management in an office lease arrangement.
Business Model	The entities' business is to provide network access to the tenants through leasing arrangements where tenants could lease a particular space to attach their telecommunication devices in order to gain access to the network available in	Business model of the entities is to lease the tower to the telecommunication operator. The main objective is to increase the tenancy ratio per tower. The increase in the tenancy ratio would increase the earnings and cash flows of

	the area. The entities are using the tower as a mean to deliver this network access to the tenants. This is generally similar to an owner-managed hotel situation.	the entities which in the end will increase the value of the tower. This is generally similar to an office lease arrangement.
	Tower is only of value when the tenancy ratio is high, thus affecting the overall quality of the network coverage available. This is different to assets generally considered as building where it will generally increase in value over time.	The selling price of a tower does not depend on the historical value of the tower, but on the lease value of the tower and the tenancy ratio. Consequently, entities believe that tower should be measured using the fair value model so that the carrying value of the tower at the statement of financial position will reflect the increase in the value of the entities' tower.
Ability to Independently Generate Cash Flows	<u>Paragraph 7 of IAS 40</u> *"Investment property is held to earn leases or for capital appreciation or both. Therefore, an investment property* ***generates cash flows largely independently of the other assets held by an entity****. This distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. IAS 16 Property, Plant and Equipment apply to owner occupied property."*	

	In generating the lease revenue entities use other assets such as other towers and other supporting assets to provide the benefit of network to the tenants. Thus the cash flows generated is dependent to other assets.	Cash flows generated from a tower is independent to the other towers or assets of the entities. In an arrangement between the entities and the tenants generally a particular space on the tower is leased to a particular tenant / operator. The cash flows from that particular space would be independent to the conditions that might affect other spaces in other towers that might be in the possession of the entities.
	Technically speaking, a network is created through continuous chains of towers communicating signal to generate a network in the area. Communication also exists between networks. A single tower cannot create a network, which is something that is of the concern of the tenants. Without the existence of network a tower would be without economic value and thus bring no economic benefit to the entities.	Entities could still generate cash flows from a tower that they have regardless of the conditions of other towers that they might have (from the point of view of the entities), assuming that they could still access the network created by other towers that might be available in the area (owned by other entities). The business arrangement and revenue stream from each tower is always independent since the lease arrangement is dedicated on each tower, not based on the network. The tower companies do not have any visibility and interest on the network since their business model is only to lease the space in the tower and do not have any arrangement on the network.

Current Development in the IASB – FASB Project

1. On 24 January 2012, IASB issued a Staff Paper of the IASB working group meeting on leases, Agenda ref 3 – Lessor Accounting: The definition of investment property. The paper discussed the issue about investment property as follows:

   *"The FASB's Investment Property Entities Exposure Draft (IPE ED) defines equipment integral to real estate property as "**any physical structure or equipment attached to the real estate, or other parts thereof that cannot be removed and used separately without incurring significant cost**". This definition would, therefore, include assets such as **cell-towers as items of investment property** (which are likely to be excluded from the IAS 40 definitions)…"*

2. Based on the FASB's IPE ED, tower could be classified as an investment property. On the other hand, it could not be classified as a property according to IAS 40. However, there is no detail explanation about why it could not be classified as a property according to IAS 40.
3. The definition of equipment integral to real estate property as introduced by FASB shows that there is a difference on how to view a particular asset, in this case telecommunication tower between the IASB and FASB. The issue here is whether IAS 40 provides sufficient guidance in classifying whether certain assets such as tower would be considered to be an investment property.

IV. CONCERNS RAISED BY THE INDONESIAN ACCOUNTING STANDARDS BOARD

1. DSAK IAI acknowledges the arguments raised by the industry, and believes that in order to decide on the accounting treatment for tower the focus should be on the definition of building (and thus property). The lack of definition on what constitutes as building has become the main issue faced by entities in the telecommunication tower leasing industry in Indonesia. Both IAS 16 and IAS 40 do not provide clear definition of building and the characteristics of assets that could be classified as one. This lack of clarity creates multi interpretation issue in defining the very nature of telecommunication tower. Due to the absence of clear definition, entities in Indonesia made reference to various laws and regulations, which leads to further discrepancies in how to define and account tower.
2. The issue with the lack of clear definition and guidance in defining certain assets as building – property is also relevant for other assets other than the telecommunication tower, among the examples that could be considered is the oil reserve/storage facility. Thus, the scope of this issue is clearly beyond a specific asset only. To avoid

multi interpretation, it might be worth to be considered for IASB to provide clear definition or guidance on what can be considered as a building, and thus property.

3. DSAK IAI would like the view of the IFRS Interpretation Committee on this particular issue, and where possible, the general view of the different jurisdictions that might also have to deal with this issue.

******* End of Issue Paper *******