

STAFF PAPER

May 2015

REG IASB Meeting

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| Project | Proposed narrow-scope amendment: IAS 40 <i>Investment Property</i>—transfers of investment property | | |
| Paper topic | Due process steps followed | | |
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Objective

1. The objective of this paper is to:
 - (a) set out the due process steps that the IASB has taken so far before the balloting of the Exposure Draft *Transfers of Investment Property* (Proposed amendments to IAS 40);
 - (b) to ask the IASB to confirm that it is satisfied that it has complied with the due process requirements to date; and
 - (c) to ask the IASB to give permission for the staff to begin the balloting process.

Structure of the paper

2. The structure of the paper is as follows:
 - (a) background;
 - (b) intention to dissent;
 - (c) comment period;
 - (d) proposed timetable for balloting and publication;
 - (e) confirmation of due process steps; and

- (f) Appendix A—Actions taken to meet the due process requirements.

Background

3. In January 2015 the IFRS Interpretations Committee (the ‘Interpretations Committee’) discussed a request to clarify the application of paragraph 57 of IAS 40 *Investment Property*, which provides guidance on transfers to, or from, investment properties.¹ More specifically, the Interpretations Committee discussed 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.
4. The Interpretations Committee recommended the IASB to address this issue through a narrow-scope amendment to IAS 40 by amending paragraph 57 to reinforce the principle for reclassification into, or out of, investment property.
5. At its meeting in April 2015 the IASB tentatively agreed with the Interpretations Committee’s recommendation to amend paragraph 57 of IAS 40 to reinforce the principle for transfers into, or out of, investment property to specify that:²
 - (a) a transfer into, or out of, investment property should be made only when there has been a change in use of the property.
 - (b) such a change in use would involve an assessment of whether the property qualifies as an investment property. That change in use should be supported by evidence.
6. The IASB also tentatively decided that the list of circumstances set out in paragraph 57(a)–(d) should be re-presented as examples of evidence that a change in use has occurred, instead of as an exhaustive list. This had also been a recommendation made by the Interpretations Committee.

¹ Refer to [Agenda Paper 12](#).

² Refer to [Agenda Paper 12A](#).

7. The IASB tentatively decided to amend IAS 40 through a narrow-scope amendment and include this proposed amendment in the Exposure Draft *Transfers of Investment Property* (Proposed amendments to IAS 40).

Intention to dissent

8. We note that when the IASB members voted on the proposed amendment to IAS 40 in April 2015, no IASB members voted against. However, we are required to formally ask whether any IASB members intend to dissent to this proposed amendment before we ballot.

Question for IASB members

Do any IASB members intend to dissent to the proposed amendment to IAS 40 that is to be included in the Exposure Draft *Transfers of Investment Property* (Proposed amendments to IAS 40)?

Comment period

9. We recommend that the IASB should publish the Exposure Draft *Transfers of Investment Property* (Proposed amendments to IAS 40) with a comment period of 120 days. This is the minimum normal period that the IASB allows for comment on an Exposure Draft in accordance with paragraph 6.7 of the [IFRS Foundation Due Process Handbook](#) (February 2013).

Proposed timetable for balloting and publication

10. We expect the balloting process of the Exposure Draft *Transfers of Investment Property* (Proposed amendments to IAS 40) to commence in July 2015, with publication of the Exposure Draft scheduled during the third quarter of 2015.

Confirmation of due process steps

11. In **Appendix A** of this paper we have summarised the due process steps followed by the IASB in developing the Exposure Draft. In summarising these steps, and thereby demonstrating that the IASB has met all the due process requirements to date, we used the reporting template ‘Development and publication of an Exposure Draft (ED) for a Standard, Practice Guidance or Conceptual Framework chapter’ from the [Due Process Protocol](#).
12. We note that the required due process steps applicable so far at this stage have been completed. We think that the completion of these steps support the publication of the Exposure Draft *Transfers of Investment Property* (Proposed amendments to IAS 40).

Questions for the IASB

1. Does the IASB agree that the Exposure Draft should be published with a comment period of 120 days?
2. Do IASB members agree with the proposed timetable for publication and give the staff permission to start the balloting process?
3. Are IASB members satisfied that all due process steps required to date that relate to the publication of the Exposure Draft have been complied with?

Appendix A—Actions taken to meet the due process requirements

A1. The following table sets out the actions taken by the IASB to meet the due process requirements required.

Development and publication of an Exposure Draft (ED) for a Standard

| <i>Step</i> | <i>Required/optional</i> | <i>Metrics or evidence</i> | <i>Actions</i> |
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| The IASB's and the Interpretations Committee's meetings are held in public, with papers being available for observers. All decisions are made in a public session. | Required | Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion. | The issue on IAS 40 was discussed and approved as a narrow-scope amendment by the IASB in its April 2015 meeting. The project webpage has been updated by the staff after every Interpretations Committee or IASB meeting in which issues proposed for inclusion in Annual Improvements were discussed. Agenda Papers were posted on the website before every Interpretations Committee or IASB meeting. Both the agenda papers for the Interpretations Committee in January 2015 (refer to Agenda Paper 12 , paragraph 45); and the IASB in April 2015 (refer to Agenda Paper 12A , paragraph 20) include an assessment of how the proposed amendment meets the Interpretations Committee agenda criteria. |
| Consultation with the Trustees and the IFRS Advisory Council (the 'Advisory Council'). | Required | Discussions with the Advisory Council. | Not considered necessary. |
| Fieldwork is undertaken to analyse proposals. | Optional | The IASB has described publicly the approach taken on fieldwork. The IASB has explained to the Due Process Oversight Committee (DPOC) why it does not believe that fieldwork is warranted, if that is the preferred path. Extent of field tests taken. | Not considered necessary. |
| Outreach meetings with a broad range of stakeholders, with special effort to consult investors. | Optional | Extent of meetings held. Evidence of specific targeted efforts to | Not considered necessary. As noted below, outreach was conducted with national-standard setters, regulators and global accounting firms (refer to paragraphs 17 – |

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| | | consult investors. | 23 of Agenda Paper 12 of January 2015). |
| Webcasts and podcasts to provide interested parties with high-level updates or other useful information about specific projects. | Optional | Extent of, and participation in, webcasts. | In January 2015 the staff recorded a podcast to give an overview of the discussion held by the Interpretations Committee about the issue on IAS 40. |
| Public discussions with representative groups. | Optional | Extent of discussions held. | Not considered necessary. |
| Online survey to generate evidence in support of or against a particular approach. | Optional | Extent and results of surveys. | Not considered necessary. The IASB has received sufficient input through the outreach request that the staff sent out to national-standard setters, regulators and global accounting firms. The staff reported back the results of the outreach request to the Interpretations Committee at its January 2015 meeting. The outreach results showed that there was diversity in practice on the application of the guidance in paragraph 57 of IAS 40. |
| The IASB hosts regional discussion forums, where possible, with national standard-setters. | Optional | Schedule of meetings held in these forums. | Not considered necessary. The IASB has received sufficient input through the outreach request that the staff sent out to national-standard setters, regulators and global accounting firms. The staff reported back the results of the outreach request to the Interpretations Committee at its January 2015 meeting. The outreach results showed that there was diversity in practice on the application of the guidance in paragraph 57 of IAS 40. |
| Round-table meetings between external participants and members of the IASB. | Optional | Extent of meetings held. | Not considered necessary. The IASB has received sufficient input through the outreach request that the staff sent out to national-standard setters, regulators and global accounting firms. The staff reported back the results of the outreach request to the Interpretations Committee at its January 2015 meeting. The outreach results showed that there was diversity in practice on the application of the guidance in paragraph 57 of IAS 40. |
| Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs. | Required | Publication of the Effects Analysis as part of the Basis for Conclusions. | N/A |
| Finalisation | | | |
| Due process steps are reviewed by the IASB. | Required | Summary of all the due process steps have been discussed by the IASB before an Exposure Draft is published. | In this paper we are demonstrating that all the required due process steps applicable to date have been performed. |

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| The Exposure Draft has an appropriate comment period. | Required | The period has been set by the IASB. If outside the normal comment period, an explanation from the IASB to the DPOC has been provided and the decision has been approved. | In accordance with the IFRS Foundation Due Process Handbook , we are proposing a comment period of 120 days. |
| Drafting | | | |
| Drafting quality assurance steps are adequate. | Required | The Translations team has been included in the review process. | To be done in due course. |
| Drafting quality assurance steps are adequate. | Required | The XBRL team has been included in the review process. | To be done in due course |
| Drafting quality assurance steps are adequate. | Optional | The Editorial team has been included in the review process. In addition, external reviewers are used to review drafts for editorial review and the comments collected are considered by the IASB. | To be done in due course. |
| Drafting quality assurance steps are adequate. | Optional | Drafts for editorial review have been made available to members of the International Forum of Accounting Standard Setters (IFASS) and the comments have been collected and considered by the IASB. | To be done in due course. |
| Publication | | | |
| Exposure Draft <i>Transfers of Investment Property</i> (Proposed amendments to IAS 40) published. | Required | ED posted on the IASB website. | The Exposure Draft will be posted on the IFRS Foundation website when published. |
| Press release to announce publication of the Exposure Draft. | Required | Press release published. Media coverage of the release. | The press release will be posted on the IFRS Foundation website when the Exposure Draft is published. |