

21 March 2016

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans,

**AOSSG comments on IASB Exposure Draft ED/2015/9
*Transfers of Investment Property: Proposed amendment to IAS 40***

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IASB ED/2015/9 *Transfers of Investment Property: Proposed amendment to IAS 40*. In formulating its views, the AOSSG sought the views of its constituents within each jurisdiction.

The AOSSG currently has 26 member standard-setters from the Asian-Oceanian region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan, and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their feedback after having initially been developed.

Overall, the AOSSG members generally support the proposed amendments. However, many members consider that the proposed amendments should provide additional clarification on how the principle of paragraph 57 of IAS 40 should be applied when there is a change in use of properties and provide additional examples of evidence of a change in use of properties. With regard to the ED's transition provisions, there are mixed views. While many AOSSG members agree with the retrospective application as the ED suggested, some argue that the prospective application would be more appropriate to lighten the significant burden in measurement for preparers.



The views of the AOSSG are explained in more detail in Appendix. If you have any questions regarding any matters in this submission, please contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jee In Jang', is centered below the text 'Yours sincerely,'.

Jee In Jang

AOSSG Chair

APPENDIX

Detailed comments on IASB ED/2015/9 Transfers of Investment Property: Proposed amendment to IAS 40

Question 1— Proposed amendment
<p>The IASB proposes to amend paragraph 57 of IAS 40 to:</p> <p>(a) state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property.</p> <p>(b) re-characterise the list of circumstances set out in paragraph 57(a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list.</p> <p>Do you agree? Why or why not?</p>

- The AOSSG members generally agree with the proposed amendments. However, many members recommend that the IASB provide clarification on how the principle of paragraph 57 of IAS 40 should be applied when there is a change in use of properties, particularly on the transfer of properties under construction that were previously classified as inventories but newly reclassified as investment properties. Members also recommend that the IASB provide examples of evidence of a change in use of properties. Suggested examples are outlined in paragraph (a) below. In addition, some members point out that consequential amendments will be required to paragraph 58 of IAS 40 in order to better align with the ED's proposal. Suggested consequential amendments are outlined in paragraph (b) below.

(a) Evidence of a change in use of properties

Many members suggest more examples or guidance should be provided on identifying the types of evidence of a change in use of properties:

- One member believes that an entity's internal documents prepared and approved in accordance with its formal procedures (such as, relevant documents and minutes of board of directors meetings) or public documents that show the entity's decision to change its policy for the use of a property (such as, a press release) should be considered as part of the evidence.
- Some members believe that the evidence of transfers to, or from, investment property during the construction stage may include obtaining approval from relevant regulatory bodies for a change in the use of the property under construction when the legal and regulatory framework requires so.
- Another member believes that entities having carried out substantial actions to prove that the change in use of the property does happen could constitute an evidence of a change in use of properties, for example, when the leasing contract has been signed or the relevant

leasing arrangement has been made, the leasing contract has expired or been terminated and promotional activities to sell the property have started, or the leasing contract has expired or been terminated and the construction or decoration activities to make it suitable for owner-occupation have started.

- (iv) Some members are of the view that it would be useful if the IASB specifies clearly that the example as provided in paragraph 57(d) of IAS 40 applies to transfers of completed investment properties from inventories to investment properties. They consider that it would be unreasonable to expect that leases can commence while the property is still under construction.
- (v) Another member is of the view that it would be useful for the body of the Standard to note that a change in management's intention is by itself insufficient evidence of a change in use (consistent with the IASB's view stated in paragraph BC3(b)).

(b) Consequential review of paragraph 58

One member points out that the IASB should clarify (i) whether and why the retained guidance in paragraph 58 on commencement of development with a view to sale is intended to be an exception to the proposals; and (ii) whether the exception prohibits an entity from transferring investment property under development to inventories if it continues as-is development, albeit for subsequent sale in the ordinary course of business.

Some members suggest the term "a change in use" should be reworded to "a change in an entity's policy for the use of a property" as there are circumstances where reclassification should be made while a property is yet to be made available for use (for example, where a property is under construction or development). One of the members notes that paragraph 58 of IAS 40 would not be fully aligned with amended paragraph 57 of the ED without making consequential amendments thereto. The member recommends following wording changes (proposed additions are underlined and deletions are struck-out).

- 58 Paragraph 57(~~b~~) requires an entity to transfer a property from investment property to inventories when, and only when, there is evidence of a change in use~~an entity's policy for the use of the property~~. Subparagraph (b) of the paragraph states that evidenced by—commencement of development with a view to sale constitutes evidence that demonstrates the entity's decision to change its policy for the use of the property, such that an investment property should be reclassified to inventory. Hence, wWhen an entity decides to dispose of an investment property without evidence that demonstrates the entity's decision to change its policy (such as subsequent development), it continues to treat the property as an investment property until it is derecognised (eliminated from the statement of financial position) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

(c) Other comments

One member suggests revising paragraph 57 of IAS 40 to explicitly clarify that it can be applied to property under construction or development so as to avoid unintended ambiguity as follows (amendments proposed are underlined).

- 57 An entity shall transfer a property (including property under construction or development) to, or from, investment property when, and only when, there is evidence of a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. Examples of evidence that support a change in use that would lead to a transfer to, or from, investment property include, among others:**
- (a) ...**

The member points out that the texts of paragraphs 57(a) to (d) should not be bold as they are only examples and not the principle of the Standard.

Question 2— Transition provisions

The IASB proposes retrospective application of the proposed amendment to IAS 40. Do you agree? Why or why not?

2. There are mixed views on the transition provisions. Some members agree with the proposal to require retrospective application of the proposed amendment to IAS 40 in accordance with *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*. However, some of them recommend that the IASB provide transitional relief in order to avoid the potential use of hindsight in determining the fair value of property on initial application of the amendments such that an entity should measure the fair value of a property newly reclassified as an investment property at the beginning of the period. Other members consider that prospective application would be more appropriate as applying the ED's proposal retrospectively could be a significant burden (such as identifying the cumulative adjustment to retained earnings or another component of equity) to preparers and involve hindsight in identifying the point of a change in use and the fair value of properties under construction at that time.