



International Accounting Standards Committee®

Press Release

For immediate release

3 May 2000

IASC ISSUES STANDARD ON ACCOUNTING FOR INVESTMENT PROPERTY

The International Accounting Standards Committee (IASC) today published International Accounting Standard IAS 40, Investment Property. IAS 40 prescribes the accounting treatment for investment property and related disclosure requirements. Investment property is defined as 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.

The Standard requires enterprises to choose one of two accounting models and to apply that model consistently to all of its investment property. The two models are:

- (a) a fair value model: investment property should be measured at fair value and changes in fair value should be recognised in the income statement; or
- (b) a cost model. The cost model is the benchmark treatment in IAS 16, Property, Plant and Equipment: investment property should be measured at depreciated cost (less any accumulated impairment losses). An enterprise that chooses the cost model should disclose the fair value of its investment property.

A change from one model to the other model should be made only if the change will result in a more appropriate presentation. The Standard states that this is highly unlikely to be the case for a change from the fair value model to the cost model.

Explaining the Standard, Per Gunslev, chairman of IASC's Steering Committee on Investment Property, said: "IAS 25, Accounting for Investments, currently permits several different accounting treatments for investment property. IAS 40 narrows that choice considerably and also requires enhanced disclosure about investment property. As a result, enterprises will have to give a clearer picture of the activities and performance of their investment property."

Per Gunslev also explained why the IASC Board decided to permit a choice of accounting models: "Exposure Draft E64 proposed last year that a single model should be required - the fair value model. This was the first time that the Board proposed requiring a fair value accounting model for non-financial assets. The comment letters on E64 showed that although many support this step, many others still have significant conceptual and practical reservations about extending a fair value model to non-financial assets. Also, some believe that certain property markets are not yet sufficiently mature for a fair value model to work satisfactorily. For those reasons, the Board believes that it is impracticable, at this stage, to require a fair value model for investment property. At the same time, the Board believes that it is desirable to permit a fair value model. This evolutionary step forward will allow preparers and users to gain greater experience working with a fair value model and will allow time for certain property markets to achieve greater maturity."

The Standard is effective for annual financial statements covering periods beginning on or after 1 January 2001. Earlier application is encouraged. The Standard replaces previous requirements in IAS 25, Accounting for Investments, which is withdrawn when this Standard comes into effect.

Explaining the wider context, Sir Bryan Carsberg, Secretary-General of IASC, said: "IAS 40 deals with a relatively specialised topic which is the final element of the core standards that we have been developing for consideration by IOSCO (the International Organization of Securities Commissions). IOSCO began its consideration of our core standards when we completed the last major project, in December 1998, and we understand that it hopes to indicate the outcome of its evaluation of the core standards at its annual meeting in May."

ENDS

Copies of *International Accounting Standard IAS 40, Investment Property*, (ISBN 0 905625 81 1), may be obtained directly from IASC's Publications Department, 166 Fleet Street, London EC4A 2DY, United Kingdom, Telephone: +44 (020) 7427-5927, Fax: +44 (020) 7353-0562, E-mail: publications@iasc.org.uk Internet Web Site: <http://www.iasc.org.uk> at a price of £15 each (US \$25), including postage.

Press Enquiries:

Per Gunslev, Chairman of IASC Steering Committee on Investment Property, Telephone: + 45 38 18 33 40, E-mail: pgunslev@kpmg.dk

Peter Clark, Senior Research Manager, IASC, Telephone: + 44 (020) 7427-5909, E-mail: pclark@iasc.org.uk