

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
United Kingdom
EC4M 6XH

14 March 2016

Dear Mr Hoogervorst

Exposure draft 2015/9 – Transfers of Investment Property (Proposed amendment to IAS 40)

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft *Transfers of Investment Property (Proposed amendment to IAS 40)* ('the exposure draft').

We welcome the Board's initiative in addressing this issue, which can be problematic in practice and agree with the proposal to clarify that paragraphs 57(a)-(d) do not set out an exhaustive list of circumstances that evidence that a change of use has occurred. However, we believe that to be operational, the proposed amendments need to provide additional clarity on:

- their application to properties under construction; and
- the role of management intent in an assessment of whether a change in use has occurred.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS Leader

Appendix

Question 1 – Proposed amendment

The IASB proposes to amend paragraph 57 of IAS 40 to:

- (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.*
- (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.*

Do you agree? Why or why not?

We agree with the proposal to clarify that the circumstances set out in paragraphs 57(a)-(d) should not be characterised as an exhaustive list of evidence that a change of use has occurred. However, we are concerned that the proposed amendment does not provide sufficient guidance to assess when a transfer is appropriate and that, as a result, divergent practices may develop.

Classification of a property upon initial recognition is often based on management's intent as evidenced by its plans at that time. At this point, management may not have taken any action demonstrating its intent other than establishing that plan. In determining whether an entity should transfer property to or from investment property management intent clearly plays a role as without that intent no change in use can occur. However, as indicated in paragraph BC3 of the Basis for Conclusions on the exposure draft "merely...a change in management's intention" is not a sufficient basis for a transfer and further evidence is needed. Paragraph 57 of the exposure draft does not, however, make clear the necessary level of that evidence. Based on the examples included in paragraph 57, it would seem that the change in management's intent needs to be coupled with an action not anticipated at the previous assessment to demonstrate the new intent. Those examples illustrate circumstances in which an action demonstrating the change of intent needs is observable to parties outside the entity, but as these are examples, it is not clear whether newly documented plans, which may be formally approved but are solely internal, would or would not constitute sufficient evidence to justify a transfer to, or from, investment property.

Further, the circumstances described in paragraph 57 relate primarily to changes in the use of completed properties. In our experience, this issue is much more challenging in the context of properties under construction. Development might often commence without a clear plan of whether each element of a property will be sold upon completion, leased to a third party or used by the developer. As development progresses, or plans are altered in response to changing market conditions, events might occur (for example, marketing of the property to prospective buyers or inception of an operating lease) that could validly be considered evidence of a change in use. Such events occur before the events described in paragraphs 57(a)-(d) – particularly paragraph 57(d), which refers to *commencement* of a lease (i.e. the date that the property is actually made available to a lessee). Therefore, it is not clear how to apply the proposed paragraph 57 to properties under construction.

We believe that clarification on both of these issues is necessary prior to finalisation of the proposed amendments.

Finally, we recommend that the amendments make it clear that the circumstances described in paragraph 57 will not in all cases provide evidence that the use of the property has changed. For example, lessees are often sought for properties developed with a view to sale primarily for the purpose of enhancing the

sales price (as an investor will typically pay more for a property with an existing 'rent roll'). In such circumstances, we do not believe that a transfer from inventory to investment property should be required.

Question 2 – Transition provisions

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

We agree that requiring prospective application would be inappropriate as it would result in entities that validly interpreted the current version of paragraph 57 of IAS 40 as permitting transfers only in the specific circumstances described being unable to reclassify properties for which there was a change in use prior to application of the proposed amendment. However, we are concerned that full retrospective application will not always be possible without the use of hindsight (which would be contrary to the requirements of paragraph 53 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). In particular, this could be the case when a transfer would result in a change from a cost model to either measurement at or disclosure of fair value under IAS 40.

As a result, we propose that full retrospective application be permitted (subject to the restriction in IAS 8 on the use of hindsight), but that an option of application from the beginning of the annual reporting period in which the amendments are applied for the first time also be provided.