

# IFRS in Focus

## IASB publishes exposure draft addressing transfers of investment property

### Contents

[Why is the amendment being proposed?](#)

[What are the changes proposed in the ED?](#)

[When would the proposed amendments apply?](#)

This edition of IFRS in Focus outlines the proposed amendment to IAS 40 *Investment Property* set out in the recent exposure draft ED/2015/9 *Transfers of Investment Property* ("the ED") which was issued in November 2015 for public comment.

### The Bottom Line

- The IASB proposes an amendment to the guidance in IAS 40 that concerns transfers to, or from, investment properties.
- Under the proposed new wording, an entity would reclassify a property to, or from, investment property when, and only when, there is evidence that a change in use of the property has occurred. The Standard's current list of circumstances in which a transfer should be made is proposed to be re-presented as examples of evidence that a change in use has occurred.
- The IASB does not propose an effective date for the proposed amendment. However, early application would be permitted.
- Comments on the proposal are due by 18 March 2016.

### Why is the amendment being proposed?

The IASB received a request concerning properties under construction or development that are classified as inventory. The submitter asked whether those properties could be transferred to investment property when there was an evident change in use other than the single circumstance currently described in IAS 40. The IASB found that IAS 40 was not sufficiently clear in that respect.

### What are the changes proposed in the ED?

Under the existing requirements of IAS 40, transfers to, or from, investment properties are only permitted when there is a change in use of a property. The Standard then specifies one event that constitutes evidence supporting each of:

- a transfer from investment property to inventory (the commencement of development with a view to sale);
- a transfer from inventory to investment property (the commencement of an operating lease to another party); and
- a transfer between investment property and owner-occupied property (the commencement or end of owner-occupation).

For more information please see the following websites:

[www.iasplus.com](http://www.iasplus.com)

[www.deloitte.com](http://www.deloitte.com)

The ED proposes retention of the requirement to make a transfer into, or out of, investment property when, and only when, evidence of a change of use of the property exists. However, it proposes to re-characterise the Standard's current list of events constituting such evidence as only examples of evidence that a change in use has occurred.

#### **Observation**

In the basis for conclusions on this proposed amendment, the IASB explains that it does not propose adding more examples of circumstances that evidence a change in use. Instead, the IASB wants to continue to focus on the principle that transfers to, or from, investment property should reflect a change in the use of that property which is supported by evidence instead of merely being a change in management's intention.

#### **When would the proposed amendments apply?**

The ED does not include an effective date for the proposed amendments. However, if finalised, earlier adoption is proposed to be permitted.

The proposed amendments would be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The comment period for the ED ends on 18 March 2016.

## Key contacts

*Global IFRS Leader*  
Veronica Poole  
ifrsglobalofficeuk@deloitte.co.uk

## IFRS centres of excellence

### Americas

<i>Canada</i>	Karen Higgins	ifrs@deloitte.ca
<i>LATCO</i>	Claudio Giaimo	ifrs-LATCO@deloitte.com
<i>United States</i>	Robert Uhl	iasplus-us@deloitte.com

### Asia-Pacific

<i>Australia</i>	Anna Crawford	ifrs@deloitte.com.au
<i>China</i>	Stephen Taylor	ifrs@deloitte.com.cn
<i>Japan</i>	Shinya Iwasaki	ifrs@tohatsu.co.jp
<i>Singapore</i>	Shariq Barmaky	ifrs-sg@deloitte.com

### Europe-Africa

<i>Belgium</i>	Thomas Carlier	ifrs-belgium@deloitte.com
<i>Denmark</i>	Jan Peter Larsen	ifrs@deloitte.dk
<i>France</i>	Laurence Rivat	ifrs@deloitte.fr
<i>Germany</i>	Jens Berger	ifrs@deloitte.de
<i>Italy</i>	Massimiliano Semprini	ifrs-it@deloitte.it
<i>Luxembourg</i>	Eddy Termaten	ifrs@deloitte.lu
<i>Netherlands</i>	Ralph Ter Hoeven	ifrs@deloitte.nl
<i>Russia</i>	Michael Raikhman	ifrs@deloitte.ru
<i>South Africa</i>	Nita Ranchod	ifrs@deloitte.co.za
<i>Spain</i>	Cleber Custodio	ifrs@deloitte.es
<i>United Kingdom</i>	Elizabeth Chrispin	deloitteifrs@deloitte.co.uk

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