February 7th, 2016

International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Dear IASB members,

Exposure Draft ED 2015/9 – Transfers of Investment Property – Proposed amendment to IAS 40

The Israel Accounting Standards Board welcomes the opportunity to comment on the IASB's Exposure Draft *ED 2015/9 – Transfers of Investment Property* published in November 2015.

Please find below our detailed comments for the questions raised in the ED:

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 support the IASB's amendment to paragraph 57 of IAS 40. In our opinion, the amended paragraph 57 is more consistent with the principles-based approach prevailing in IFRSs. The statement that a change in use occurs when the investment property meets, or cease to meet, the definition of investment property rather than an exhaustive list of examples to change in use prevents inconsistencies in the application of IAS 40. However, we believe that further clarification is required regarding the evidence of a change in use.

According to paragraph BC3 a change in use would involve evidence that a change in use has occurred, instead of merely being a change in management's intention. Yet paragraph 57 (after its amendment) states "a change in use occurs when the property meets, or ceases to meet, the definition of investment property." The definition of investment property is based also on management's intentions for future use of the property. For example, the classification of land held for long-term capital appreciation or land held for a currently undetermined use as investment property is based on management's intentions. Consequently, it is unclear which evidence are required for a transfer from inventory to investment property in situations such as land that was held for sale in the short-term and classified as inventory and due to economic changes, management decided to hold the land for long-term capital appreciation. Furthermore, paragraph BC3 might imply that the classification criteria of a land at a subsequent reporting period when management changes its resolution regarding that land is different than the classification criteria at initial recognition since the classification on initial recognition could be based solely on management's intention.

Question 2 – Transition provisions

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

The amendment is a change from an exhaustive list of examples of transfers to a principles-based approach which is based on management's judgment. As a result of the amendment and the retrospective application, managements will need to review evidence of previous change in use in properties (that did not qualify for a transfer) in order to decide whether that evidence justifies a transfer to, or from, investment property according to paragraph 57 after its amendment. In our opinion, since the use of hindsight is prohibited in retrospective application and since such circumstances are rare in each entity, prospective application would be more appropriate and would not impair comparability.

We appreciate the opportunity to provide our comments.

Sincerely,

Dov Sapir, CPA, Chairman

Israel Accounting Standards Board