

Association of Accounting Technicians response to the IFRS Exposure Draft on “Transfers of Investment Property: Proposed amendment to IAS 40”

Association of Accounting Technicians response to the IFRS Exposure Draft on “Transfers of Investment Property: Proposed amendment to IAS 40”

1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the IFRS Exposure Draft on “Transfers of Investment Property: Proposed amendment to IAS 40” published in November 2015 (ED).
- 1.2. AAT is submitting this response on behalf of its membership and for wider public benefit.
- 1.3. AAT has responded to the questions set out in the ED and has also focussed on the operational elements of the proposals and on the practicalities of implementing the measures outlined.
- 1.4. AAT has added comment in order to add value or highlight aspects that need to be considered further.
- 1.5. Furthermore, AAT’s comments reflect the potential impact that the proposed guidance would have on SME’s and micro-entities, many of which employ AAT members or would be represented by our operationally skilled licensed and regulated members in practice.

2. Executive summary

- 2.1. Not only is AAT fully supportive of the proposed amendments to paragraph 57 of IAS 40 (the IAS) it also sees the amendment as an opportunity to provide additional guidance on the application of the IAS where complex conditions exist such that there is not clear evidence of a change of use at a particular point of time (3.4, below).
- 2.2. AAT also supports the proposal for the amendments to be applied retrospectively but with a suggested clarification of the treatment of existing misclassifications at the time the amendments are introduced, which might otherwise appear to be in conflict with the IAS (3.9, below).

3. AAT response to the IFRS Exposure Draft on “Transfers of Investment Property: Proposed amendment to IAS 40”

- 3.1. AAT’s responses to the specific questions raised in the Exposure Draft are as follows.

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 58(a) to (d) as a non-exhaustive list of examples that a change in use has occurred instead of an exhaustive list.**

Do you agree? Why or why not?

- 3.2. AAT is in full agreement with the proposed to amendment to the IAS when, and only when, there is a change in use, as determined by the definition of investment property, with the proviso that the definition needs a minor amendment to accommodate exceptional situations where there is not a clear point of time when a change of use occurs.

- 3.3. Potential difficulties in applying the principles are most likely to arise in situations where the evidence is not clear cut and not readily comparable to the published examples for example:

Where property may be of a specialist use or nature, then long term plans may be established to make the property marketable, possibly involving the letting of the property to a potential purchaser with an option to purchase.

- 3.4. AAT is of the view that the IAS is too prescriptive in the definition determining a change of use as the basis of a transfer to or from investment property¹.
- 3.5. It is the use of the restrictive phrase “when, and only when, there is evidence of a change of use” which AAT considers can cause difficulties where such an event does not arise clearly at one point of time.
- 3.6. Furthermore, AAT considers that the IAS should also provide guidance that in cases of doubt, or conflicting evidence, the overriding factor should be the entities’ intentions for the property concerned. In such exceptional cases it is considered, by AAT, to be logical to ensure that the financial statements reflect substance over form.
- 3.7. It is AAT’s view that this could be achieved by an extension of the condition to “when, and only when, there is evidence of a change, *or an intended change*, of use”.
- 3.8. AAT supports the re-characterisation of the list of circumstances set out in paragraph 57(a) to (d) as a non-exhaustive list of examples of evidence that a change of use has occurred, instead of an exhaustive list. The list of examples being non exhaustive allows preparers of financial statements to consider the relevance of evidence applicable to each transfer as it arises.

Question 2 – Transition provisions

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

- 3.9. AAT agrees with retrospective application of the proposed amendment to the IAS as being helpful in those situations where the amendments provide clarity to transfers already in effect, subject to a concession that previous transfers which would be deemed to have been incorrectly made by the introduction of the proposed amendment and subsequently corrected in the first financial statements after the publication of the amended IAS, albeit contrary to the strict interpretation of the requirement set out in IAS 40 that transfers will be made “*when, and only when, there is evidence of a change in use*”.

4. Conclusion

- 4.1. AAT considers that the proposed amendment to the IAS addresses the issue of conditions relevant to the recognition of specified events giving rise to the need for a transfer of investment property.
- 4.2. The existing IAS is too prescriptive as the use of the restrictive phrase “when, and only when, there is a change of use” can cause difficulties where such an event does not arise clearly at one point of time, and has suggested a further modification to the definition (3.7, above).
- 4.3. AAT fully supports the proposal to re-characterise the list of circumstances set out in paragraph 57(a) to (d) as a non-exhaustive list of examples of evidence that a change of use has occurred, instead of an exhaustive list (3.8, above) and the retrospective application of the proposed amendment to IAS 40 (3.9, above).

¹ Paragraph 57 of IAS 40 on page 6, ED

- 4.4. The amended IAS appears to be unclear as regards the correction of any misclassified properties which would have been misclassified due to the strict application of the existing IAS 40 and AAT has suggested appropriate clarification (3.9, above).

5. About AAT

- 5.1. AAT is a professional accountancy body with over 49,700 full and fellow members² and 85,500 student and affiliate members worldwide. Of the full and fellow members, there are over 4,200 members in practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 5.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

6. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact AAT at:

email: consultation@aat.org.uk and aat@taxpolicyadvice.com

telephone: 020 7397 3088

Aleem Islan
Association of Accounting Technicians
140 Aldersgate Street
London
EC1A 4HY

² Figures correct as at 31 Dec 2015