

15 March 2016

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

**Re: Comments on Exposure Draft ED/2015/9 *Transfers of Investment Property* :**  
**Proposed amendment to IAS 40**

The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcomes the opportunity to provide comments on the International Accounting Standards Board’s (“IASB”) Exposure Draft *Transfers of Investment Property: Proposed amendment to IAS 40* (the “ED”), issued in November 2015.

We appreciate the amendments proposed in the ED, because we believe they will help reduce the diversity in practice regarding the application of paragraph 57 of IAS 40, and hence will contribute to the improvement in the quality of financial reporting prepared in accordance with IFRSs.

However, we believe that the proposal requires further improvements, especially in the following respects:

- (a) The term ‘a change in use’ should be reworded, primarily because there are circumstances where a reclassification should be made while a property is yet to be made available for use (for example, where a property is under construction or development.) In order to capture such situations with sufficient clarity, we suggest that the term ‘a change in use’ be reworded to ‘a change in an entity’s policy for the use of a property’.
- (b) Judgment guidance as to what constitutes ‘evidence’ should be clarified, so as to address challenges that are prevalent in practice. In practice, whether an entity’s internal documents having been prepared and approved in accordance with its formal procedures (such as, relevant documents and minutes of board of directors’

meetings) or documents that demonstrate the entity's decision to change its policy for the use of a property to third parties (such as a press release) may constitute evidence are often a focal point of debates. In this regard, we believe that such documents should be considered as part of the 'evidence'. We believe this clarification is important, because an actual change in use normally follows such formal authorisation and external communication (such as, a press release where it exists) and hence, this clarification is instrumental in ensuring that a reclassification occurs in a timely manner (see our comments in (a) above).

- (c) A consequential amendment should be made to paragraph 58 of IAS 40 to better align the paragraph with the proposed amendment to paragraph 57 of the ED.
- (d) A transitional arrangement should be reconsidered so as to avoid involvement of significant hindsight in fair value measurement of a property reclassified to an investment property.

For our comments on specific questions to the ED, please refer to the Appendix of this letter.

We hope that our comments will be helpful for the IASB's future consideration. If you have any questions, please feel free to contact us.

Yours sincerely



Tomo Sekiguchi

Board Member of the ASBJ

Chairman of the Technical Committee for IFRS Implementation in the ASBJ

**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?

1. We agree with the direction of the proposals in the ED, primarily for the reasons described in paragraphs BC1 to BC6 of the ED.
2. However, as stated in the covering letter, we believe that the proposal requires further improvements, especially in the following respects:
  - (a) The term ‘a change in use’ should be reworded, because there are circumstances where a reclassification should be made while a property is yet to be made available for use (for example, where a property is under construction or development.) We believe that it is important to make sure that a reclassification is made in a timely manner, since a timely reclassification would ensure that the measurement basis reflects how an asset would contribute to future cash flows to an entity. A timely reclassification is also important to faithfully represent the nature of properties in accordance with the corresponding definitions set forth in IFRSs (see, for example, paragraph 5 of IAS 40 and paragraph 6 of IAS 2). Hence, we suggest that the term ‘a change in use’ be amended to capture the above-mentioned situations. Specifically, we suggest that the IASB reword the term ‘a change in use’ to ‘a change in an entity’s policy for the use of a property’, while stressing in the requirement that a mere change in management intention without substantive evidence to support the decision to change the entity’s policy is not sufficient to justify the reclassification (see paragraph BC 3 of the ED).

- (b) Judgment guidance as to what constitutes ‘evidence’ should be clarified, so as to address challenges that are prevalent in practice. In practice, whether an entity’s internal documents having been prepared and approved in accordance with its formal procedures (such as, relevant documents and minutes of board of directors’ meetings) or documents that demonstrate the entity’s decision to change its policy for the use of a property to third parties (such as a press release) may constitute evidence are often a focal point of debates. In this regard, we believe that such documents should be considered as part of the ‘evidence’ so as to ensure a timely reclassification. We believe this clarification is important, because an actual change in use normally follows such formal authorisation and external communication (such as a press release where it exists) and hence, this clarification is instrumental in ensuring that a reclassification occurs in a timely manner (see our comments in (a) above).
3. In addition, we find that paragraph 58 of IAS 40 is not fully aligned with the amended paragraph 57 of the ED without making consequential amendments thereto. Accordingly, if the IASB finalises the amendment as proposed in the ED having accepted our suggestions in the previous paragraph, we recommend the following wording changes (our proposed additions are underlined and deletions are struck-out).

58 Paragraph 57~~(b)~~ requires an entity to transfer a property from investment property to inventories when, and only when, there is **evidence of** a change in ~~use, an entity’s policy for the use of the property. Subparagraph (b) of the paragraph states that~~ **evidenced by** commencement of development with a view to sale **constitutes evidence that demonstrates the entity’s decision to change its policy for the use of the property, such that an investment property should be reclassified to inventory. Hence, w**hen an entity decides to dispose of an investment property without **such evidence (e.g., subsequent** development), it continues to treat the property as an investment property until it is derecognised (eliminated from the statement of financial position) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

<b>Question 2—Transition provisions</b>
The IASB proposes retrospective application of the proposed amendment to IAS 40. Do you agree? Why or why not?

The IASB proposes retrospective application of the proposed amendment to IAS 40.

Do you agree? Why or why not?

4. In general, we agree with the proposal in the ED that would require retrospective application of the proposed amendment to IAS 40.
5. However, we think that, in limited situations, significant hindsight would be required in fair value measurement of a property when an entity is required to reclassify the non-investment property to an investment property to comply with the amendment of the Standard and where an entity adopts the ‘fair value model’ to an investment property. In addition, significant hindsight may also be necessary for an entity adopting the ‘cost model’ to an investment property if an entity is required to disclose the fair value information and such information cannot be obtained objectively.
6. In order to avoid the involvement of significant hindsight, we think that the IASB should consider establishing a transitional provision, such that an entity adopting the ‘fair value model’ should measure the fair value of a property newly reclassified to an investment property at the beginning of the period for which the proposed amendment becomes effective with a corresponding adjustment made to the opening balance of affected components of equity, when significant hindsight is required in the measurement. We also encourage the IASB to consider whether and how to exempt or modify the fair value disclosure requirement for an entity adopting the ‘cost model’ to an investment property, where significant hindsight is required to provide such information.