



KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

Tel +44 (0)20 7694 8871
mark.vaessen@kpmgifrg.com

Mr Hans Hoogervorst
International Accounting Standards Board
1st Floor
30 Cannon Street
London
EC4M 6XH

Our ref **MV/BOD**
Contact **Mark Vaessen**

18 March 2016

Dear Mr Hoogervorst

Comment letter on ED/2015/9 *Transfers of Investment Property*

We appreciate the opportunity to comment on the International Accounting Standards Board's Exposure Draft (ED) *Transfers of Investment Property – Proposed amendments to IAS 40*. We have consulted with, and this letter represents the views of, the KPMG network.

We support the Board's proposal to clarify that the list of circumstances that provide evidence of a change in use set out in IAS 40.57(a)-(d) is not exhaustive. The Appendix to this letter contains our responses to the specific questions raised in the ED.

Please contact Mark Vaessen or Brian O'Donovan, at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

Appendix: Responses to specific questions

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 proposed amendment, as it will clarify the requirement and thereby reduce diversity in practice. We note that the first sentence of IAS 40.58 includes language similar to that in IAS 40.57 and suggest that conforming amendments be made to IAS 40.58. Also, we believe that further small drafting changes to IAS 40.57 would reinforce that it is the actual change in use that triggers a transfer to, or from, investment property, as follows.

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. Examples of evidence that may support a change in use that would lead to a transfer to, or from, investment property include, among others:

However, we disagree with the statement in BC4 of the ED that IAS 40.57(a)-(d) currently presents an exhaustive list of circumstances that provide evidence of a change in use. We consider that the current wording is unclear and can be read to suggest either that the list is exhaustive, or that it is non-exhaustive. Therefore, we recommend that paragraph BC4 not be included in the final amendment.

Question 2—Transition provisions

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

We disagree with the proposal for retrospective application of the proposed amendments. We believe this could be onerous for entities with a large number of properties who have previously applied a narrow interpretation of IAS 40.57. This is because some transfers to or from investment property result in a change in the measurement basis of assets that may be held for many years subsequently.

For example, full retrospective adoption of the amendment would require an entity that held investment property under the fair value model to:

- reconsider whether and, if so, when, any of its investment properties should have been transferred to owner-occupied property;
- obtain the fair value of the investment property at the new or revised transfer date, in order to determine the deemed cost of the property under IAS 16 *Property, Plant and Equipment*; and
- recalculate depreciation, and reconsider impairment testing, from that date to the present.

As an alternative, we recommend that entities be permitted to apply the amendments to changes in use that take place after the date of initial application of the amendments.

Additional comment

The proposed amendments, together with the earlier amendments regarding investment property under construction, make the final sentence of IAS 40.58 redundant. We suggest that the Board take this opportunity to delete this sentence.