ASC
ACCOUNTING STANDARDS COUNCIL
SINGAPORE

21 March 2016

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

(By online submission)

Dear Hans

RESPONSE TO EXPOSURE DRAFT ON TRANSFERS OF INVESTMENT PROPERTY (PROPOSED AMENDMENT TO IAS 40)

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Exposure Draft on Transfers of Investment Property (Proposed amendment to IAS 40) (the ED) issued by the International Accounting Standards Board (the IASB) in November 2015.

Our comments on the specific questions in the ED 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 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?

Subject to our comments below, we are generally supportive of the IASB's proposals. In our view, the proposed amendments would be more principle-based and would produce accounting outcomes that more faithfully represent the economic reality.

We recommend that the IASB should enhance the following aspects of the guidance on the determination of a change in use:

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Evidence of a change in use

The IASB should clarify that a change in use has to be supported by evidence that is substantive. To avoid unnecessary subjectivity, the guidance should include indicators that collectively may provide substantive evidence of a change in use, which possibly include obtaining regulatory approvals, undertaking redevelopment activities such as creation of design, construction or floor plans and commencement of major retrofitting works, and marketing property on new use. We note that other existing Standards similarly provide a non-exhaustive list of indicators to guide the assessment of transfers, such as the transfer of control in IFRS 15 *Revenue from Contracts with Customers* and the 'transfer' of financial assets from the 12-month to the lifetime expected credit losses tier in IFRS 9 *Financial Instruments*. The IASB could also consider developing illustrative examples on how different indicators may provide substantive evidence of a change in use based on the facts presented. That said, we appreciate that no single activity constitutes substantive evidence, and that the guidance should continue to allow the use of judgement and the consideration of specific facts and circumstances.

Examples of evidence

We believe it would be useful if the examples of evidence in paragraph 57 of IAS 40 were to include transfers involving properties under construction. Unlike completed properties, the identification of substantive evidence of a change in the use of properties under construction could be more difficult, or even improbable in certain circumstances. An example could be a change in use that does not require regulatory approvals or redevelopment, particularly if internal approvals and activities are strictly viewed as a form of management's intention.

Change in use involving development

The concept of 'development' has wider implications with the proposed amendments. The commencement of development for subsequent use as investment property (IP), inventory or property, plant and equipment (PPE) potentially causes a property to meet or cease to meet the definition of IP, thereby triggering a transfer. However, there is no description or guidance on development, and different interpretations ranging from minor retrofitting to construction could result. The IASB should, at a minimum, provide a description of development to promote more consistent application.

Interaction with paragraph 58

The ED does not propose any consequential amendments to the guidance in paragraph 58 of IAS 40, which continues to make reference to 'commencement of development with a view to sale' in paragraph 57(b) of IAS 40 as the only circumstance under which IP could be transferred to inventories. The IASB should clarify whether the guidance is intended to be an exception to the proposed principle-based approach to determining transfers and if so, (a) the rationale for such an exception; and (b) whether an entity is precluded from transferring IP under development to inventories if it continues as-is development albeit for subsequent sale in the ordinary course of business. Otherwise, consequential amendments should be made to the guidance to reflect the principles underlying the proposals.

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Furthermore, the IASB should avoid using terms such as 'with a view to sale', which could be perceived as being dependent on management's intention and inconsistent with the proposals.

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

We believe there are merits in providing transitional reliefs from retrospective application in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The proposed amendments change the basis for transfers from under narrow circumstances only to a principle-based approach, which inevitably change the timing of transfers from or to IP in some cases. Hence, retrospective application of the amendments risks the potential use of hindsight in determining the fair value of property at the date of transfer and/or for the comparative periods. In fact, the IASB has previously specified prospective application of past amendments made to IAS 40 to avoid the potential use of hindsight. Moreover, properties are long-life assets and retrospective application of the proposed amendments potentially requires entities to determine the effect for a long period of time, particularly if the effect cannot be simply adjusted to the opening balance of retained earnings, such as the case for transfers between IP and PPE under the revaluation model. We are concerned that retrospective application is potentially difficult to operationalise and to be justified from the cost-benefit perspective.

Accordingly, we recommend that the IASB should consider providing transitional reliefs from retrospective application. For example, the IASB could consider the principles underlying the transitional reliefs in IFRS 10 *Consolidated Financial Statements* to require retrospective application only to properties that would be classified differently at the date of initial application of the proposed amendments.

We hope that our comments will contribute to the IASB's deliberation on the ED. Should you require any further clarification, please contact our project manager Boon Tian Tan at Boon_Tian_TAN_from.tp@asc.gov.sg.

Yours faithfully

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