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International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom
Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON ED/2015/9 – *TRANSFERS OF INVESTMENT PROPERTY:* PROPOSED AMENDMENT TO IAS 40

In response to your request for comments on ED/2015/9 – *Transfers of Investment Property:* Proposed Amendment to IAS 40, attached is the comment letter prepared by the Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

Kevin Davies
Chairman of the Accounting Practices Committee

Bongeka Nodada
Project Director – Financial Reporting Standards

SPECIFIC COMMENTS

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.

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?

Feedback from constituents indicates that the requirements of IAS 40 – *Investment Property* paragraph 57 were not read to be an exhaustive list of circumstances evidencing a change in use. For this reason, the amendments are unlikely to affect practice in the South African context. We do no object to the IASB making the amendments to make the wording clearer.

Bar the wording in paragraph BC3(b), the proposed amendment does not deal with the practical issue of what would be suitable evidence of a change in use. We suggest that the wording in paragraph BC3(b) be included in the Standard so it is clear that a change in management intention is not sufficient on its own. Some constituents also believed that additional guidance would be valuable to determine the point in time when reclassification should occur, as is the case in IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations* where specific criteria are required for a reclassification.

For example: Entity A has previously erected and sold small office buildings and shops and has correctly classified the properties as inventory. Due to the downturn in the market and increasing funding costs, the market to sell these buildings has declined significantly. The directors of Entity A have resolved to lease its current properties to tenants for a short period, in the anticipation that the situation will improve in the next year or two.

Questions on the example above:

- Is there sufficient evidence that there has been a change in use?
- If the lease terms are fairly short and leasing is an interim step, but without a change in business model in the long term, should the change in use criteria be considered met?
- Would a change in business model be required for a reclassification? For example the company could explicitly state the change in model to its investors (this model must apply to each individual property to be consistent with its unit of account).
- Does the extent of rental income have any bearing? In this example the rental for one or two years is a very small component of the fair value of the property i.e. it is incidental to the sale.

Question 2—Transition

Transition

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

Our constituents have mixed views on the transitional requirements, in particular with regard to whether or not the clarification was a change in accounting policy (which then required the use of IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*) or not.

Constituents believe that it may not be possible to apply the amendment fully retrospectively as it may be difficult to ascertain an entity's intentions without the use of hindsight. Therefore, they believe that this proposed amendment should be applied prospectively.

Some constituents believed that there should be an the option to apply the amendment retrospectively if and only if the information necessary to do so was obtained at the time, whereas others believed that it was more important to achieve consistency going forward, and that retrospective application should not be permitted.

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