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Dear Sir

Exposure Draft ED/2015/9 *Transfers of Investment Property* (Proposed amendments to IAS 40)

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network¹, this letter summarises views of member firms that provided comments on the ED.

In principle, we agree with the proposed amendments in the ED. However, in many cases (in particular for property under development) management intent is a key driver in determining the future use of a property (and the appropriate classification as either an investment property (IAS 40), owner-occupied property (IAS 16) or inventories (IAS 2)). Consequently, we believe that it would be appropriate for there to be greater clarity about the level of commitment and supporting evidence required by management to demonstrate that there has been a change in use. In addition, because properties may require redevelopment prior to a change in use, we believe that further amendments should be made to paragraph 57.

Our responses to the questions in the ED are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)20 7893 3300 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Global Head of IFRS

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Appendix

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 that a property should be transferred to, or from, investment property when, and only when, there is evidence of a change in use. However, we are not convinced that the amended paragraph 57, combined with the discussion in the Basis for Conclusions, will result in a consistent approach being taken by different entities.

Paragraph BC3(b) notes that an assessment of whether a property qualifies as an investment property would need to be supported by:

'...evidence that a change in use has occurred, instead of merely being a change in management's intention.'

We agree with this approach, but note that some might read the proposal in paragraph 57, which links the change in use to whether a property meets the definition of investment property, as being less definitive. We suggest that reference is made in the Basis for Conclusions to paragraph B38 of the Basis for Conclusions on IAS 40 (2000) *Investment Property*, to make it clear that there should be a robust application of the principles underlying the definition of investment property.

We note that, in particular for property under development (or redevelopment), management intent may be a primary factor in determining whether a property (or part of a property) meets the definition of an investment property. For example, due to changes in economic and other conditions, a developer's plan might change from selling a property on completion to leasing it to a third party. The only substantive evidence of this change in plan might be management intent.

We suggest that paragraph BC3 might be amended to allow for management intent, but only in circumstances in which there is supporting evidence and management is demonstrably committed to the change in intent:

'...evidence that a change in use has occurred. Where a change in use arises from a change in management intent, the change in intent would need to be accompanied by

clear supporting evidence to demonstrate that management is committed to the change in use. A management decision by itself would not provide evidence of a change in use.'

We agree that the list of circumstances in paragraph 57 should be re-characterised as non-exhaustive. However, subparagraphs a), c) and d) appear to be relevant only for completed property, for which no development is required prior to the change in use. We suggest that these are broadened to include a development phase; for example, subparagraph a) could be amended (with similar amendments being made to c) and d)) as follows:

- a) 'Commencement of owner occupation, or of development with a view to owner occupation, for a transfer from investment property to owner-occupied property'

Question 2 - Transition provisions

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

We agree that retrospective application is preferable. However, in some cases it may not be practicable for retrospective information to be obtained without the use of hindsight.

We suggest that, in order to avoid the use of hindsight, the transitional provisions could be similar to those set out in IAS 40.85B which applied when investment properties under construction were brought within the scope of IAS 40 by the Improvements to IFRSs that were issued in May 2008.