

3 May 2016

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sirs,

**RESPONSE TO EXPOSURE DRAFT (ED) – TRANSFERS OF INVESTMENT PROPERTY  
(PROPOSED AMENDMENTS TO IAS 40)**

ISCA sought views from its members on the above ED through a two-month public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms.

We welcome and support IASB's initiative to address the issue of application of paragraph 57 in practice on the transfers to, or from, investment properties when a change in use has occurred. We also propose that IASB consider providing some practical expedients and/or reliefs to aid entities in the application of the proposed amendments retrospectively.

Our detailed comments for respective amendments 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?

We agree with the proposed amendment to paragraph 57 as this will clarify the principle that transfers to, or from, investment property shall be made only when there is a change in use of the property and hence, reduce diversity in practice. The proposed amendment also clarifies that the list of circumstances set out in paragraph 57(a)-(d) is a non-exhaustive list of examples of evidence that a change in use has occurred.

Paragraph BC4 of the Basis of Conclusion in the ED states that “The IASB observed that the list of circumstances that provide evidence of a change in use set out in paragraph 57(a)-(d) of IAS 40 is exhaustive...and therefore this paragraph was meant to be applied only in narrow circumstances”. Furthermore, paragraph BC6 states that “Consequently, the IASB proposes to...instead of an exhaustive list,...” We are of the view that the original drafting of paragraph 57 is unclear as to whether the list of circumstances listed in (a) to (d) is exhaustive or non-exhaustive. We also note that there are differing interpretations and practices in the market. Hence, we propose that IASB removes paragraph BC4 and the phrase “instead of an exhaustive list” in paragraph BC6 accordingly.

In addition, we observe that some property developers have a practice of leasing out unsold property units to earn rental income until they are sold. Under such circumstances, paragraph 57(d) may be interpreted as requiring the developers to change the classification from inventories to investment properties. We believe that developers should be allowed to consider contrary or circumstantial evidence in their assessment as to whether there are any changes in use. We propose that IASB further clarifies that paragraph 57(a)-(d) are examples of evidence that are to be considered, together with contrary or other circumstantial evidence in order to determine whether a change in use has occurred.

#### **Question 2—Transition provisions**

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

We note that the proposed retrospective application would be challenging in practice, especially for entities with large number of properties and have previously applied the narrow interpretation of paragraph 57. In addition, the retrospective application requires entities to determine whether the change in use has occurred prior to the beginning of the earliest comparative period, and to not apply hindsight when assessing whether a change in use has occurred. This retrospective application may also result in the need to determine fair values of properties as of earlier dates without the use of hindsight. Accordingly, the proposed retrospective requirement would be fairly onerous for these entities to apply.

We agree with retrospective application of the proposed amendments but propose that IASB consider providing practical expedients and/or reliefs to assist entities in their retrospective application of the proposed amendment, similar to that provided in IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.

Should you require any further clarification, please feel free to contact Ms Lim Ju May, Deputy Director, Technical Advisory and Professional Standards, or Ms Jezz Chew, Manager, Technical Advisory and Professional Standards, from ISCA via email at [jumay.lim@isca.org.sg](mailto:jumay.lim@isca.org.sg) or [jezz.chew@isca.org.sg](mailto:jezz.chew@isca.org.sg) respectively.

Yours faithfully,



Titus Kuan

Director

Technical Advisory and Professional Standards