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**Sent electronically through the IASB Website ([www.ifrs.org](http://www.ifrs.org))**

21 March 2016

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

Dear Hans,

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

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing, and ethics for professional accountants, in Hong Kong. We are grateful for the opportunity to provide you with our comments on ED/2015/9.

We welcome the IASB's efforts to address the diversity in practice regarding transfers of investment properties under construction to, or from, inventories when there is a change in use. However, we are concerned that the proposed amendments do not go far enough in resolving the issue.

We recommend that the IASB:

- provides more guidance on how the principle of paragraph 57 of IAS 40 should be applied from the perspective of investment properties under construction by adding examples of evidence necessary to support a change in classification; and
- clarifies that the current example provided in paragraph 57(d) of IAS 40 applies to transfers of completed investment properties.

In addition, we consider that the proposed amendments should be applied consistently with the transition provision in paragraph 85B of IAS 40. That is, the proposed amendments should be applied prospectively and entities should be permitted to apply the proposed amendment to investment properties under construction from any date before the effective date of the amendments provided that the fair values of investment properties under construction were measured at those dates.

Our responses to the questions raised in ED/2015/9 are explained in more detail in the Appendix.



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

If you have any questions regarding the matters raised in this letter, please contact me or Winnie Chan, Associate Director of the Standard Setting Department ([winniechan@hkicpa.org.hk](mailto:winniechan@hkicpa.org.hk)).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'CNg'.

Christina Ng  
Head of Financial Reporting, Standard Setting Department

CN/WC  
Encl

**Detailed comments on ED/2015/9 *Transfers of Investment Property* (Proposed amendment to IAS 40)**

<b>Question 1—Proposed amendment</b>
<b>The IASB proposes to amend paragraph 57 of IAS 40 to:</b>
<b>(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>
<b>(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.</b>
<b>Do you agree? Why or why not?</b>

We welcome the IASB's efforts to address the diversity in practice arising from the guidance in IAS 40.57, which as currently written is not sufficiently clear to be applied in practice, especially for transfers of properties that are still under construction or development. IAS 40.57(d) states that the reclassification can only be made when, and only when, there is a change in use evidenced by the commencement of an operating lease to another party. In practice, we are aware that some entities view 'commencement of a lease' as when the property is ready for use by the lessee with reference to the definition in paragraph 4 of IAS 17 *Leases*. As leases do not typically commence until the investment property is completed, it therefore appears that IAS 40.57 does not provide for transfers of property under construction or development from inventory (being constructed for sale) to investment property (being constructed for rental or capital appreciation).

We support the IASB in addressing this issue through narrow-scope amendments to IAS 40. However, we are concerned that the proposed amendments do not go far enough in resolving the issue.

As compared to completed investment properties, investment properties under construction are not ready for its intended use (i.e. for rental or capital appreciation, or both), and are therefore subject to change in management's intention in response to fluctuations in property and capital markets. However, we note that paragraph BC3 of ED/2015/9 states that a change in management's intention alone would not be sufficient evidence for reclassification and would need to be supported by an actual change in use of the property. Accordingly, the proposed amendment as currently written would not be helpful in resolving the current application issue.

We strongly recommend that the IASB provides clarification on how the principle of paragraph 57 should be applied in situations where the properties are under development or construction. For properties under development, examples of evidence that support a change in use would include commencing of leasing activities and lease negotiations with potential tenants; modifying the internal structure, design or fit out of the properties under construction; and obtaining approval from relevant regulatory bodies for a change in the use of the property under consideration.



In addition, it would be helpful if the IASB specifies clearly that the example provided in paragraph 57(d) of IAS 40 applies to transfers of *completed* investment properties. We consider that it would be unreasonable to expect that leases can commence while the property is still under construction. This is in contrast to our example in the paragraph above, which describes the commencement of leasing activities that occur prior to commencing a lease.

We note that paragraph BC3 states, "...a change in use would involve: (a) an assessment of whether a property qualifies as an investment property; supported by (b) evidence that a change in use has occurred, instead of merely being a change in management's intention". It is clear from paragraph BC3 that both the definition of investment property and evidence of change (excluding management intention) is required to qualify for transfer. However, we find that only paragraph BC3(a) is clearly stated in the body of the standard (paragraph 57). In terms of drafting of paragraph 57, the requirements for transfer would be much clearer if paragraph 57 follows the construction of paragraphs BC3(a) and BC3(b).

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

We consider that applying the proposed amendments retrospectively using the fair value model without the use of hindsight would be challenging.

We therefore consider that the proposed amendments should be applied consistently with the transition provision in paragraph 85B of IAS 40. That is, the proposed amendments should be applied prospectively and entities should be permitted to apply the proposed amendment to investment properties under construction from any date before the effective date of the amendments provided that the fair values of investment properties under construction were measured at those dates.

If the proposed amendments were to be applied prospectively, we consider that it should apply to transfers of properties under construction that takes place on or after the effective date of the proposed amendments.

~ End ~