Comments on Exposure Draft of Transfers of Investment Property, Amendments to Ind AS 40 *Investment Property* issued by the Accounting Standards Board of The Institute of Chartered Accountants of India

Thank you so much for the opportunity to comment on the Exposure Draft of Transfers of Investment Property, Amendments to Ind AS 40 *Investment Property*. Given below are our comments:

1. It may be noted that IFRS, amendments to IFRS or annual improvements to IFRS contain the rationale and basis for conclusions for the amendments. The same is not given in case of Ind AS. However, it is essential that at least some write-up on the necessity of the amendments are given in Ind AS. It may be mentioned as to
    a. what issue gave arose to these amendments;
    b. how the amendments solve the issue; and
    c. what the effect of the amendments will be on financial statements by an example presenting extract of financial statements before and after the amendment.
2. Paragraph 84C states as under:
   "*84C Transfers of Investment Property (Amendments to Ind AS 40) amended paragraphs 57-58. An entity shall apply those amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments (at the date of initial application). At the date of initial application, an entity shall reassess the classification of property held at that date and, if applicable, reclassify property applying paragraphs 7 – 14 to reflect the conditions that exist at that date.*"

   The words "in which the entity first applies the amendments" makes the application of the amendment at the discretion of the entity. "

   Further, paragraph 85G states as under:
   "*85G Transfers of Investment Property (Amendments to Ind AS 40), amended paragraphs 57-58 and added paragraphs 84C-84E. An entity shall apply those amendments for annual period beginning on or after 1st April 2018.*"

   On reading paragraph 85G, it appears that the application of the amendment is not at the discretion of the entity. Thus, there seems to be a conflict between the requirements of the two paragraphs, 84C and 84G.

   In this regard, it is recommended that the words in paragraph 84C be changed as under:

"84C Transfers of Investment Property (Amendments to Ind AS 40) amended paragraphs 57-58. An entity shall apply those amendments from the effective date as specified in paragraph 85G. An entity shall reassess the classification of property held at that date and, if applicable, reclassify property applying paragraphs 7 – 14 to reflect the conditions that exist at that date."

3. Paragraph 84D states as under:
   "84D Notwithstanding the requirements in paragraph 84C, an entity is permitted to apply the amendments to paragraphs 57-58 retrospectively in accordance with Ind AS 8 if, and only if, that is possible without the use of hindsight."

Thus, the exposure draft provides an option to apply the amendments retrospectively at the discretion of the entity if such entity can apply without the use of hindsight. ASB in its wisdom should decide as to which one should be applicable to Indian companies, retrospective application or prospective application. Under Ind AS, the approach of ASB has been to reduce the various options given. Classic examples of this principle are

(a) removal of the option of fair value model in Ind AS 40; and
(b) removal of the option to present analysis of expenses based on their function in Ind AS 1.

Looking to the above said principle of reducing the options to the extent possible, it is difficult to comprehend the necessity to change the principle by giving options in transitional provisions which could impair comparability and such impairment might be a continuing affair. The transitional provisions should be such as would make the application less complex and beneficial to the users.

Attention is drawn to the requirements of paragraph 19 of Ind AS 8 which states as under:

"19 Subject to paragraph 23:

(a) An entity shall account for a change in accounting policy resulting from the initial application of an Ind AS in accordance with the specific transitional provisions, if any, in that Ind AS; and

(b) When an entity changes an accounting policy upon initial application of an Ind AS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively."

Thus, retrospective application of a change in accounting policy happens by default in absence of transitional provisions. The very purpose of specifying transitional provisions requiring other than retrospective application is to ease the application of amended principles while ensuring that the objective of financial statements specified in the framework is satisfied. As paragraph 84C requires prospective application thereby easing the application of the amendments, it is recommended that paragraph 84D be deleted and a paragraph to explain the purpose of such deletion be added in Appendix 1.

4. Paragraph 84E states as under:

"*84E If, in accordance with paragraph 84C, an entity reclassifies property at the date of initial application, the entity shall:*

(a) Account for the reclassification in accordance with the requirement in paragraph 59.

i. [Refer Appendix 1]

ii.]Refer Appendix 1]

(b) Disclose the amounts reclassified to, or from, investment property, in accordance with paragraph 84C. The entity shall disclose those amounts reclassified as part of the reconciliation of the carrying amount of investment property at the beginning and end of the period as required by paragraph 79.

The above paragraph refers to two paragraphs of Ind AS 40. Each paragraph is considered separately below:

1. Paragraph 59 of Ind AS 40 *Investment Property* states as under:

   "*59 Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.*"

   a. Transfers between investment property and owner-occupied property:

      It may be noted that investment property and owner-occupied property are subject to same measurement principles applicable if an entity selects cost model for its owner-occupied property. However, the carrying amount and cost of investment property and owner-occupied property can be different if an entity selects revaluation model for owner-occupied property. For example, an entity bought land at Rs.100 crores for constructing factory building. Thus, the land is accounted as property, plant and equipment. The entity follow revaluation model for land class of assets. Thus, the entity revalues land at the end of the reporting period to Rs.200 crores due to the significant infrastructural developments in the surrounding area. The construction of factory building is deferred and the entity leases the land. Thus, there is a change in use evidenced by the end of owner-occupation as per paragraph 57(c). In such a case, as per paragraph 59, the investment property will be measured at Rs.200 crores, which, in fact, is not the cost but the fair value of land. Thus, paragraph 59 permits backdoor entry to the fair value model, the removal of which was the very purpose of making amendments to Ind AS 101 which were notified by an amendment notification to Companies (Indian Accounting Standards) Rules, 2015 on 30 March 2015.

b. Transfers between Investment Property and Inventories: Inventories are measured subsequently at the lower of cost and net realisable value. If an entity had held a building for sale and written down the cost to net realisable value and now that building is leased on operating lease, paragraph 57(d) will become applicable and the building will be classified as investment property. However, the carrying amount of the building is not the cost of building.

In view of the above, it is recommended that paragraph 59 be amended to provide that:

a. In case of transfers from owner-occupied property to Investment property, the transfer would be at Cost less accumulated depreciation on cost less accumulated impairment recognised till date
b. In case of other transfers, the carrying amount will be deemed to be the cost of the property on the date of transfer.

It may be further clarified that entity shall transfer at the depreciated cost less accumulated impairment on the date of transfer.

2. Paragraph 79 of Ind AS 40 *Investment Property* states as under:

"79 In addition to the disclosures required by paragraph 75, an entity shall disclose:

(a) the depreciation methods used;
(b) the useful lives or the depreciation rates used;
(c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
(d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
  (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
  (ii) additions resulting from acquisitions through business combinations;
  (iii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;
  (iv) depreciation;

(v) *the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with Ind AS 36;*

(vi) *the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;*

(vii) *transfers to and from inventories and owner-occupied property; and*

(viii) *other changes.*

(e) *the fair value of investment property. In the exceptional cases described in paragraph 53, when an entity cannot measure the fair value of the investment property reliably, it shall disclose:*

(i) *a description of the investment property;*

(ii) *an explanation of why fair value cannot be measured reliably; and*

(iii) *if possible, the range of estimates within which fair value is highly likely to lie.*

Thus, paragraph 79(d)(vii) already requires disclosure of transfers of investment property in the reconciliation of opening to closing investment property. It is not clear what further disclosure is required by paragraph 84E. In absence of the mention in paragraph 84E, the requirements of paragraph 79 will take care that the transfers are appropriately disclosed in the reconciliation. The mention of disclosure in paragraph 84E is duplication and is recommended to be deleted.

5. If the option given in paragraph 84D is retained, a suitable disclosure of the same needs to be required.