



1906/39410

March 13, 2016

International Accounting Standards Board
30 Cannon Street
London EC4M6XH
United Kingdom

Dear Sir/Madam,

Re: **Exposure Draft – Transfers of Investment Property (Proposed amendment to IAS 40)**

We appreciate the opportunity to respond to Exposure Draft "Transfers of Investment Property (Proposed amendment to IAS 40)" issued by the International Accounting Standards Board (IASB). The response stated below represents the views of the Institute of Certified Public Accountants in Israel.

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.*

Response to questions 1:

We **agree** with the IASB's decision to re-characterize 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.

According to paragraph BC6 the IASB does not propose to add more examples of circumstances that evidence a change in use. **However, we are concerned that IAS 40**

remains unclear mainly with regard to transfers of properties under development or construction, for which the examples that are listed in paragraph 57 are less relevant.

For instance, paragraph 57(b), which refers to a transfer from investment property to inventories, considers a commencement of development with a view to sale as evidence that support a change in use that would lead to that transfer. It is common in some jurisdictions for owners of property before or under development to request from the relevant land authorities a change in the permitted use of the property, attaching new plans to the request. Assuming that as of the date of request it is probable (based on past experience) that the authorities will agree to the change in use, is this sufficient evidence of a change in use, or sufficient evidence would first require the official approval by the authorities, or possibly require that physical construction takes place after the approval has been received?

We believe that although the focus of the standard should be on the principles underlying a change in use, examples should be added, especially in connection with property under construction or development. In this respect, the IASB should also consider the requirements in IAS 23 regarding the commencement of capitalization of borrowing costs, and specifically IAS 23.19 which states that:

"The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of the physical construction..."

Question 2 - Transition provisions

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

Response to questions 2:

Since retrospective application of this specific amendment will usually involve a high degree of hindsight (e.g., retrospective evaluation of assets where no active market exists, determining the exact point in time where there is evidence of a change in use, etc.), **we generally do not agree with the proposed transition provision.** We believe it is preferable if the amendments are applied prospectively as if the transfer to or from investment property has occurred on the date of initial application of the amendments (the first day of the reporting period in which the entity first applies the amendments) and the effects of the transfer are recognized in the opening balance of retained earnings (or other part of equity, if applicable). We also believe that if an entity can obtain the relevant information for retrospective application without the use of hindsight, it should be allowed (but not required) to apply the amendments retrospectively.

Sincerely yours

A handwritten signature in blue ink, consisting of the initials 'D.G.' followed by a long horizontal stroke that ends in a small upward tick.

David Goldberg
Chair of the Professional Council
and former president of the Institute

A handwritten signature in blue ink, featuring a stylized 'A' followed by several loops and a long horizontal stroke.

Arnon Ratzkovsky
Chair of the Financial Reporting Standards
Committee