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

# MEMBERS' HANDBOOK

## Update No. 199

*(Issued 25 April 2017)*

This Update relates to *Transfers of Investment Property* (Amendments to HKAS 40 *Investment Property*).

| ***Document Reference and Title*** | ***Instructions*** | ***Explanations*** |
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| **VOLUME II** | | |
| Contents of Volume II | Discard existing pages i-ii & replace with revised pages i-ii. | Revised contents pages |
| **HONG KONG ACCOUNTING STANDARD** | | |
| HKAS 40 *Investment Property* | Replace the cover page and page 3 with revised cover page and page 3. Insert pages 21A-21B after page 21. Insert pages 24B-24C after page 24A. | - Notes 1 to 4 |

**Note:**

1. In March 2017, the Institute's Financial Reporting Standards Committee approved *Transfers of Investment Property* (Amendments to HKAS 40), following the International Accounting Standards Board's equivalent amendments.

2. The amendments clarify that, to transfer to or from, investment properties, there must be a change in use. A change in use would involve (a) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (b) supporting evidence that a change in use has occurred.

3. The amendments also re-characterised the list of circumstances in HKAS 40.57(a)-(d) as a non-exhaustive list of examples to allow for other circumstances to be accounted for as a transfer, as long as that change is supported by appropriate evidence.

4. The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

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

# MEMBERS' HANDBOOK
# CONTENTS OF VOLUME II

(Updated to April 2017)

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HKAS 40
Revised ~~January 2017~~April 2017

*Hong Kong Accounting Standard 40*

# Investment Property

Hong Kong Institute of
Certified Public Accountants
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Hong Kong Accounting Standard 40 *Investment Property* (HKAS 40) is set out in paragraphs 1-86. All the paragraphs have equal authority. HKAS 40 should be read in the context of its objective and the IASB's Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

 

# Appendix

# Amendments to HKAS 40 *Transfers of Investment Property*

*The following sets out amendments required for this Standard resulting from amendments to HKAS 40 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted.*

Paragraphs 57–58 are amended. Deleted text is struck through and new text is underlined.

## Transfers

**57** **~~Transfers~~ An entity shall transfer a property to, or from, investment property ~~shall be made~~ when, and only when, there is a change in use~~, evidenced by~~. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. Examples of evidence of a change in use include:**

**(a)** **commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;**

**(b)** **commencement of development with a view to sale, for a transfer from investment property to inventories;**

**(c)** **end of owner-occupation, for a transfer from owner-occupied property to investment property; ~~or~~ and**

**(d)** **~~commencement~~ inception of an operating lease to another party, for a transfer from inventories to investment property.**

**(e)** **[deleted]**

58 ~~Paragraph 57(b) requires an entity to transfer a property form investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale.~~ When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the statement of financial position) and does not ~~treat~~ reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

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Paragraphs 84C–84E and their related heading, and paragraph 85G, are added.

# Transitional provisions

...

## Transfers of investment property

84C *Transfers of Investment Property* (Amendments to HKAS 40), issued in April 2017, 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 (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.

84D Notwithstanding the requirements in paragraph 84C, an entity is permitted to apply the amendments to paragraphs 57–58 retrospectively in accordance with HKAS 8 if, and only if, that is possible without the use of hindsight.

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 applying the requirements in paragraphs 59–64. In applying paragraphs 59–64, an entity shall:

(i) read any reference to the date of change in use as the date of initial application; and

(ii) recognise any amount that, in accordance with paragraphs 59–64, would have been recognised in profit or loss as an adjustment to the opening balance of retained earnings at the date of initial application.

(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 paragraphs 76 and 79.

# Effective date

…

85G *Transfers of Investment Property* (Amendments to HKAS 40), issued in April 2017, amended paragraphs 57–58 and added paragraphs 84C–84E. An entity shall apply those amendments for annual periods beginning on or after 1 January 2018. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

# Appendix

## Basis for Conclusions on the amendments to IAS 40 *Transfers of Investment Property*

*The following sets out amendments required for this Basis for Conclusions resulting from amendments to IAS 40 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Basis for Conclusions and this appendix will be deleted.*

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|---|
| Paragraphs BC23–BC33 and their related headings are added. |

## Transfers of investment property

BC23 The Board received a question regarding the application of paragraph 57, which specifies requirements on transfers to, or from, investment property. The question asked whether an entity transfers property under construction or development previously classified as inventory to investment property when there is evidence of a change in use, even if that evidence is not specifically listed in paragraph 57(a)–(d).

BC24 Paragraph 57 requires transfers to, or from, investment property when, and only when, there is a change in use of property supported by evidence. The Board noted that the words ‘when, and only when’ in this paragraph are important to ensure that a transfer is limited to situations in which a change in use has occurred. The Board observed that the list of circumstances that provide evidence of a change in use specified in paragraph 57(a)–(d) of IAS 40 was drafted such that it was exhaustive (as shown by the references to ‘when and only when’ and ‘evidenced by’ in that paragraph).

BC25 The Board decided, however, to amend paragraph 57 so that it reflects the principle that a change in use would involve (a) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (b) supporting evidence that a change in use has occurred. Applying this principle, an entity transfers property under construction or development to, or from, investment property when, and only when, there is a change in the use of such property, supported by evidence.

BC26 The Board also re-characterised the list of circumstances in paragraph 57(a)–(d) as a non-exhaustive list of examples to be consistent with the principle described in paragraph BC25.

BC27 Respondents to the Board’s proposals asked whether management’s intended use of a property would provide sufficient evidence of a change in use of a property under construction or development. The Board decided to confirm in paragraph 57 that, in isolation, a change in management’s intentions would not be enough to support a transfer of property. This is because management’s intentions, alone, do not provide evidence of a change in use—an entity must have taken observable actions to support such a change.

BC28 Some other respondents asked the Board to explain what provides substantive evidence of a change in use. The Board decided that such explanation is not needed. An entity assesses the specific facts and circumstances when applying paragraph 57, and paragraph 14 notes that judgement is needed to determine whether a property qualifies as investment property.

BC29 Respondents agreed with the Board’s decision to re-characterise the list of circumstances in paragraph 57(a)–(d). However, some respondents were concerned that this list appeared to apply only to completed properties and, thus, they suggested that the Board add examples for a change in use of properties under construction or development. In response, the Board decided to amend paragraph 57(a) (ie to include ‘commencement of development with a view to owner-occupation’) and paragraph 57(d) (ie to refer to ‘inception’ of an operating lease, because at this point the construction of the related property might not be complete).

## Transition

BC30 The Board proposed that an entity apply the amendments retrospectively. However, some respondents disagreed. They said that retrospective application might be impossible for some entities without the use of hindsight, or could be complex and burdensome in some situations—for example, in determining the exact point at which there was evidence of a change in use in prior periods, or in obtaining fair values at transfer dates in the past. Those respondents suggested either prospective application or, alternatively, retrospective application with some practical expedients.

BC31 In considering the comments, the Board observed the following:

(a) the amounts recognised on the date of initial application would be unaffected by the transition approach for some previous changes in use, for example, transfers between investment property and owner-occupied property for entities that use the cost model.

(b) applying the amendments retrospectively could be complex or may require the use of hindsight for some previous changes in use, for example, transfers from investment property measured using the fair value model to owner-occupied property that occurred some considerable time ago.

(c) a prospective approach would require entities to apply the amendments only to changes in use that occur on or after the date of initial application. Such an approach might prevent an entity from reclassifying some property to reflect the conditions that exist on the date of initial application.

BC32 To address the concerns raised, the Board developed the transition method in paragraph 84C to ease the burden of applying the amendments retrospectively and to ensure that, on transition, an entity classifies property consistently with the amended Standard. If an entity uses this transition method, the Board decided to require specific disclosure of any reclassification of property at the date of initial application as part of the reconciliation of the carrying amount of investment property that is already required to be provided. This disclosure informs users of financial statements about changes to the carrying amount of investment property at the date of transition that do not reflect an underlying change in use of the property at that date.

BC33 The Board also noted that, depending on the properties held and previous changes in use that occurred, an entity may be able to apply the amendments retrospectively without the use of hindsight. If that is the case, the Board decided that the entity should not be prevented from doing so.