IASB documents published to accompany

IAS 40

Investment Property

The text of the unaccompanied standard, IAS 40, is contained in Part A of this edition. Its effective date when issued was 1 January 2005. This part presents the following documents:

IASB BASIS FOR CONCLUSIONS ON IAS 40 (AS REVISED IN 2003)

IASC BASIS FOR CONCLUSIONS ON IAS 40 (2000)

Basis for Conclusions on IAS 40 *Investment Property*

This Basis for Conclusions accompanies, but is not part of, IAS 40.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on revising IAS 40 *Investment Property* in 2003. Individual Board members gave greater weight to some factors than to others.

BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of Standards, including IAS 40. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within Standards, to deal with some convergence issues and to make other improvements. In May 2002 the Board published its proposals in an Exposure Draft of *Improvements to International Accounting Standards*, with a comment deadline of 16 September 2002. The Board received over 160 comment letters on the Exposure Draft.

BC3 Because the Board's intention was not to reconsider the fundamental approach to the accounting for investment property established by IAS 40, this Basis for Conclusions does not discuss requirements in IAS 40 that the Board has not reconsidered. The IASC Basis for Conclusions on IAS 40 (2000) follows this Basis.

Scope

Property interests held under an operating lease

BC4 Paragraph 14 of IAS 17 *Leases* requires a lease of land with an indefinite economic life to be classified as an operating lease, unless title is expected to pass to the lessee by the end of the lease term. Without the provisions of IAS 40 as amended, this operating lease classification would prevent a lessee from classifying its interest in the leased asset as an investment property in accordance with IAS 40. As a result, the lessee could not remeasure its interest in the leased asset to fair value and recognise any change in fair value in profit or loss. However, in some countries, interests in property (including land) are commonly—or exclusively—held under long-term operating leases. The effect of some of these leases differs little from buying a property outright. As a result, some contended that such leases should be accounted for as finance leases or investment property, or as both.

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BC5 The Board discussed possible solutions to this issue. In particular, it considered deleting paragraph 14 of IAS 17, so that a long-term lease of land would be classified as a finance lease (and hence could qualify as an investment property) when the conditions for finance lease classification in paragraphs 4–13 of IAS 17 are met. However, the Board noted that this would not resolve all cases encountered in practice. Some leasehold interests held for investment would remain classified as operating leases (eg leases with significant contingent rents), and hence could not be investment property in accordance with IAS 40.

BC6 In the light of this, the Board decided to state separately in paragraph 6 (rather than amend IAS 40's definition of investment property) that a lessee's interest in property that arises under an operating lease could qualify as investment property. The Board decided to limit this amendment to entities that use the fair value model in IAS 40, because the objective of the amendment is to permit use of the fair value model for similar property interests held under finance and operating leases. Put another way, a lessee that uses the cost model for a property would not be permitted to recognise operating leases as assets. The Board also decided to make the change optional, ie a lessee that has an interest in property under an operating lease is allowed, but not required, to classify that property interest as investment property (provided the rest of the definition of investment property is met). The Board confirmed that this classification alternative is available on a property-by-property basis.

BC7 When a lessee's interest in property held under an operating lease is accounted for as an investment property, the Board decided that the initial carrying amounts of that interest and the related liability are to be accounted for as if the lease were a finance lease. This decision places such leases in the same position as investment properties held under finance leases in accordance with the previous version of IAS 40.

BC8 In doing so, the Board acknowledged that this results in different measurement bases for the lease asset and the lease liability. This is also true for owned investment properties and debt that finances them. However, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*,[1] as revised in 2003, an entity can elect to measure such debt at fair value, but lease liabilities cannot be remeasured in accordance with IAS 17.

BC9 The Board considered changing the scope of IAS 39, but concluded that this would lead to a fundamental review of lease accounting, especially in relation to contingent rentals. The Board decided that this was beyond the limited revisions to IAS 40 to facilitate application of the fair value model to some operating leases classified as investment properties. The Board did, however, indicate that it wished to revisit this issue in a later project on lease accounting. The Board also noted that this was the view of the Board of the

1 IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IAS 40 was issued.

former IASC as expressed in its Basis for Conclusions, in paragraphs B25 and B26.[2]

BC10 Finally, the Board noted that the methodology described in paragraphs 40 and 50(d) of IAS 40, whereby a fair valuation of the property that takes all lease obligations into account is adjusted by adding back any liability that is recognised for these obligations, would, in practice, enable entities to ensure that net assets in respect of the leased interest are not affected by the use of different measurement bases.[3]

IFRS 16 *Leases*

BC10A IFRS 16 *Leases* amended the scope of IAS 40 by defining investment property to include both owned investment property and investment property held by a lessee as a right-of-use asset. A summary of the IASB's considerations in developing the amendments to the scope of IAS 40 are set out in paragraphs BC178–BC181 of IFRS 16.

The choice between the cost model and the fair value model

BC11 The Board also discussed whether to remove the choice in IAS 40 of accounting for investment property using a fair value model or a cost model.

BC12 The Board noted that IASC had included a choice for two main reasons. The first was to give preparers and users time to gain experience with using a fair value model. The second was to allow time for countries with less-developed property markets and valuation professions to mature. The Board decided that more time is needed for these events to take place (IAS 40 became mandatory only for periods beginning on or after 1 January 2001). The Board also noted that requiring the fair value model would not converge with the treatment required by most of its liaison standard-setters. For these reasons, the Board decided not to eliminate the choice as part of the Improvements project, but rather to keep the matter under review with a view to reconsidering the option to use the cost model at a later date.

BC13 The Board did not reconsider IAS 40 in relation to the accounting by lessors. The definition of investment property requires that such a property is held by the owner or a lessee under a finance lease. As indicated above, the Board agreed to allow a lessee under an operating lease, in specified circumstances, also to be a 'holder'. However, a lessor that has provided a property to a lessee under a finance lease cannot be a 'holder'. Such a lessor has a lease receivable, not an investment property.

2 These paragraphs in the IASC Basis are no longer relevant and have been deleted.

3 Subsequently, the Board concluded that the drafting of paragraph 50(d) was misleading because it implied that the fair value of an investment property asset held under a lease was equal to the net fair value plus the carrying amount of any recognised lease liability. Therefore, in *Improvements to IFRSs* issued in May 2008 the Board amended paragraph 50(d) to clarify the intended meaning.

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BC14 The Board did not change the requirements for a lessor that leases property under an operating lease that is classified and accounted for by the lessee as investment property. The Board acknowledged that this would mean that two parties could both account as if they 'hold' interests in the property. This could occur at various levels of lessees who become lessors in a manner consistent with the definition of an investment property and the election provided for operating leases. Lessees who use the property in the production or supply of goods or services or for administrative purposes would not be able to classify that property as an investment property.

Scope

Investment property under construction

BC15 In response to requests for guidance, the Board revisited the exclusion of investment property under construction from the scope of IAS 40. The Board noted that investment property being redeveloped remained in the scope of the Standard and that the exclusion of investment property under construction gave rise to a perceived inconsistency. In addition, the Board concluded that with increasing experience with the use of fair value measures since the Standard was issued, entities were more able to measure reliably the fair value of investment property under construction. Therefore, in the exposure draft of proposed *Improvements to International Financial Reporting Standards* published in 2007 the Board proposed amending the scope of the Standard to include investment property under construction.

BC16 Many respondents supported the Board's proposal. However, many expressed concern that including in IAS 40 investment property under construction might result in fewer entities measuring investment property at fair value. This was because the fair value model in the Standard requires an entity to establish whether fair value can be determined reliably when a property first becomes an investment property. If not, the property is accounted for using the cost model until it is disposed of. In some situations, the fair value of investment property under construction cannot be measured reliably but the fair value of the completed investment property can. In these cases, including in the Standard investment property under construction would have required the properties to be accounted for using the cost model even after construction had been completed.

BC17 Therefore, the Board concluded that, in addition to including investment property under construction within the scope of the Standard, it would also amend the Standard to allow investment property under construction to be measured at cost if fair value cannot be measured reliably until such time as the fair value becomes reliably measurable or construction is completed (whichever comes earlier).

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Classification of property as investment property or owner-occupied property

Acquisition of investment property: interrelationship with IFRS 3

BC18 The IFRS Interpretations Committee (the 'Interpretations Committee') reported to the Board that practice differed in delineating the scope of IFRS 3 *Business Combinations* and IAS 40:

(a) some considered both Standards as mutually exclusive if investment property with associated insignificant ancillary services, as specified in paragraph 11 of IAS 40, is acquired. They view property, together with any associated insignificant ancillary services, as being a single 'unit of account' and they consider this unit of account to be one asset called 'investment property'.

(b) others did not view IFRS 3 and IAS 40 as being mutually exclusive if investment property with associated insignificant ancillary services, as specified in paragraph 11 of IAS 40, is acquired; nor did they view the definitions of a business as defined in Appendix A of IFRS 3 and investment property as defined in paragraph 5 of IAS 40 as being interrelated. They think that an entity that acquires investment property has to determine whether it meets both definitions.

BC19 The Board noted that paragraphs 7–14 of IAS 40 have been developed to differentiate investment property from owner-occupied property and to define the scope of IAS 40 to distinguish it from the scope of IAS 16 *Property, Plant and Equipment*. In addition, neither IFRS 3 nor IAS 40 contains a limitation in its scope that restricts its application when the other Standard applies, ie there is nothing within the scope of each Standard to suggest that they are mutually exclusive. The Board also noted that the wording of IAS 40 is not sufficiently clear about the interrelationship between the two Standards.

BC20 The Board agreed with the proponents of the view presented in paragraph BC18(b) that IFRS 3 and IAS 40 are not mutually exclusive. It amended IAS 40 to state explicitly that judgement is also needed to determine whether the transaction is the acquisition of an asset or a group of assets or is a business combination within the scope of IFRS 3. That judgement is not based on paragraphs 7–14 of IAS 40 but is instead based on the guidance in IFRS 3. Only the judgement needed to distinguish investment property from owner-occupied property is based on those paragraphs.

BC21 Consequently, the Board clarified the interrelationship between the two Standards by adding paragraph 14A and a heading before paragraph 6 to IAS 40.

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Effective date and transition

BC22 *Annual Improvements Cycle 2011–2013* issued in December 2013 added headings before paragraph 6 and after paragraph 84 and added paragraphs 14A, 84A and 85D to clarify the interrelationship between IFRS 3 and IAS 40. It considered the provisions for transition and the effective date of the amendment to IAS 40. The Board noted that applying IFRS 3 to transactions that have previously been accounted for as the acquisition of an asset or a group of assets might involve the use of hindsight when determining the fair values, at acquisition date, of the identifiable assets acquired and of the liabilities assumed as part of the business combination transaction. However, it also noted that the amendment is only a clarification of the interrelationship between IFRS 3 and IAS 40. Consequently, it decided that an entity would apply the amendments to IAS 40 prospectively for annual periods beginning on or after 1 July 2014, but an entity may choose to apply the amendment to individual transactions that occurred prior to the beginning of the first annual period occurring on or after the effective date only if the information needed is available to the entity.

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.

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(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.

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Basis for Conclusions on IAS 40 (2000) *Investment Property*

This Basis for Conclusions accompanies, but is not part of, IAS 40. It was issued by the Board of the former International Accounting Standards Committee (IASC) in 2000. Apart from the deletion of paragraphs B10–B20, B25 and B26, this Basis has not been revised by the IASB—those paragraphs are no longer relevant and have been deleted to avoid the risk that they might be read out of context. However, cross-references to paragraphs in IAS 40 as issued in 2000 have been marked to show the corresponding paragraphs in IAS 40 as revised by the IASB in 2003 (superseded references are struck through and new references are underlined). Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ. In addition, the text has been annotated where references to material in other standards are no longer valid, following the revision of those standards. Reference should be made to the IASB's Basis for Conclusions on the amendments made in 2003.

Background

B1 The IASC Board (the "Board") approved IAS 25 *Accounting for Investments* in 1986. In 1994, the Board approved a reformatted version of IAS 25 presented in the revised format adopted for International Accounting Standards from 1991. Certain terminology was also changed at that time to bring it into line with then current IASC practice. No substantive changes were made to the original approved text.

B2 IAS 25 was one of the standards that the Board identified for possible revision in E32 *Comparability of Financial Statements*. Following comments on the proposals in E32, the Board decided to defer consideration of IAS 25, pending further work on Financial Instruments. In 1998, the Board approved IAS 38 *Intangible Assets* and IAS 39 *Financial Instruments: Recognition and Measurement*,[1] leaving IAS 25 to cover investments in real estate, commodities and tangible assets such as vintage cars and other collectors' items.

B3 In July 1999, the Board approved E64 *Investment Property*, with a comment deadline of 31 October 1999. The Board received 121 comment letters on E64. Comment letters came from various international organisations, as well as from 28 individual countries. The Board approved IAS 40 *Investment Property* in March 2000. Paragraph B67 below summarises the changes that the Board made to E64 in finalising IAS 40.

B4 IAS 40 permits entities to choose between a fair value model and a cost model. As explained in paragraphs B47–B48 below, the Board believes that it is impracticable, at this stage, to require a fair value model for all investment property. At the same time, the Board believes that it is desirable to permit a fair value model. This evolutionary step forward will allow preparers and users to gain greater experience working with a fair value model and will allow time for certain property markets to achieve greater maturity.

1 IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IAS 40 was issued.

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Need for a Separate Standard

B5 Some commentators argued that investment property should fall within the scope of IAS 16 *Property, Plant and Equipment*, and that there is no reason to have a separate standard on investment property. They believe that:

(a) it is not possible to distinguish investment property rigorously from owner-occupied property covered by IAS 16 and without reference to management intent. Thus, a distinction between investment property and owner-occupied property will lead to a free choice of different accounting treatments in some cases; and

(b) the fair value accounting model proposed in E64 is not appropriate, on the grounds that fair value is not relevant and, in some cases, not reliable in the case of investment property. The accounting treatments in IAS 16 are appropriate not only for owner-occupied property, but also for investment property.

B6 Having reviewed the comment letters, the Board still believes that the characteristics of investment property differ sufficiently from the characteristics of owner-occupied property that there is a need for a separate Standard on investment property. In particular, the Board believes that information about the fair value of investment property, and about changes in its fair value, is highly relevant to users of financial statements. The Board believes that it is important to permit a fair value model for investment property, so that entities can report fair value information prominently. The Board tried to maintain consistency with IAS 16, except for differences dictated by the choice of a different accounting model.

Scope

Investment Property Entities

B7 Some commentators argued that the Standard should cover only investment property held by entities that specialise in owning such property (and, perhaps, also other investments) and not cover investment property held by other entities. The Board rejected this view because the Board could find no conceptual and practical way to distinguish rigorously any class of entities for which the fair value model would be less or more appropriate.

Investment Property Reportable Segments

B8 Some commentators suggested that the Board should limit the scope of the Standard to entities that have a reportable segment whose main activity is investment property. These commentators argued that an approach linked to reportable segments would require an entity to adopt the fair value model when the entity considers investment property activities to be an important element of its financial performance and would allow an entity to adopt IAS 16 in other cases.

B9 An approach linked to reportable segments would lead to lack of comparability between investment property held in investment property segments and investment property held in other segments. For this reason, the Board rejected such an approach.

B10–B20 [Deleted]

Property Occupied by Another Entity in the Same Group

B21 In some cases, an entity owns property that is leased to, and occupied by, another entity in the same group. The property does not qualify as investment property in consolidated financial statements that include both entities, because the property is owner-occupied from the perspective of the group as a whole. However, from the perspective of the individual entity that owns it, the property is investment property if it meets the definition set out in the Standard.

B22 Some commentators believe that the definition of investment property should exclude properties that are occupied by another entity in the same group. Alternatively, they suggest that the Standard should not require investment property accounting in individual financial statements for properties that do not qualify as investment property in consolidated financial statements. They believe that:

(a) it could be argued (at least in some such cases) that the property does not meet the definition of investment property from the perspective of a subsidiary whose property is occupied by another entity in the same group—the subsidiary's motive for holding the property is to comply with a directive from its parent and not necessarily to earn rentals or to benefit from capital appreciation. Indeed, the intragroup lease may not be priced on an arm's length basis;

(b) this requirement would lead to additional valuation costs that would not be justified by the limited benefits to users. For groups with subsidiaries that are required to prepare individual financial statements, the cost could be extensive as entities may create a separate subsidiary to hold each property;

(c) some users may be confused if the same property is classified as investment property in the individual financial statements of a subsidiary and as owner-occupied property in the consolidated financial statements of the parent; and

(d) there is a precedent for a similar exemption (relating to disclosure, rather than measurement) in paragraph 4(c) of IAS 24 *Related Party Disclosures*, which does not require disclosures in a wholly-owned subsidiary's financial statements if its parent is incorporated in the same country and provides consolidated financial statements in that country.[2]

2 IAS 24 *Related Party Disclosures* as revised by the IASB in 2003 no longer provides the exemption mentioned in paragraph B22(d).

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B23 Some commentators believe that the definition of investment property should exclude property occupied by any related party. They argue that related parties often do not pay rent on an arm's length basis, that it is often difficult to establish whether the rent is consistent with pricing on an arm's length basis and that rental rates may be subject to arbitrary change. They suggest that fair values are less relevant where property is subject to leases that are not priced on an arm's length basis.

B24 The Board could find no justification for treating property leased to another entity in the same group (or to another related party) differently from property leased to other parties. Therefore, the Board decided that an entity should use the same accounting treatment, regardless of the identity of the lessee.

B25–B26 [Deleted]

Government Grants

B27 IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* permits two methods of presenting grants relating to assets—either setting up a grant as deferred income and amortising the income over the useful life of the asset or deducting the grant in arriving at the carrying amount of the asset. Some believe that both of those methods reflect a historical cost model and are inconsistent with the fair value model set out in this Standard. Indeed, Exposure Draft E65 *Agriculture*, which proposes a fair value model for biological assets, addresses certain aspects of government grants, as these are a significant factor in accounting for agriculture in some countries.

B28 Some commentators urged IASC to change the accounting treatment of government grants related to investment property. However, most commentators agreed that IASC should not deal with this aspect of government grants now. The Board decided not to revise this aspect of IAS 20 in the project on Investment Property.

B29 Some commentators suggested that IASC should begin a wider review of IAS 20 as a matter of urgency. In early 2000, the G4+1 group of standard setters published a Discussion Paper *Accounting by Recipients for Non-Reciprocal Transfers, Excluding Contributions by Owners: Their Definition, Recognition and Measurement*. The Board's work plan does not currently include a project on the accounting for government grants or other forms of non-reciprocal transfer.

Definition of Investment Property

B30 The definition of investment property excludes:

(a) owner-occupied property—covered by IAS 16 *Property, Plant and Equipment*. Under IAS 16, such property is carried at either depreciated cost or revalued amount less subsequent depreciation. In addition, such property is subject to an impairment test; and

(b) property held for sale in the ordinary course of business—covered by IAS 2 *Inventories*. IAS 2 requires an entity to carry such property at the lower of cost and net realisable value.

B31 These exclusions are consistent with the existing definitions of property, plant and equipment in IAS 16 and inventories in IAS 2. This ensures that all property is covered by one, and only one, of the three Standards.

B32 Some commentators suggested that property held for sale in the ordinary course of business should be treated as investment property rather than as inventories (covered by IAS 2). They argued that:

(a) it is difficult to distinguish property held for sale in the ordinary course of business from property held for capital appreciation; and

(b) it is illogical to require a fair value model for land and buildings held for long-term capital appreciation (investment property) when a cost model is still used for land and buildings held for short-term sale in the ordinary course of business (inventories).

B33 The Board rejected this suggestion because:

(a) if fair value accounting is used for property held for sale in the ordinary course of business, this would raise wider questions about inventory accounting that go beyond the scope of this project; and

(b) it is arguably more important to use fair value accounting for property that may have been acquired over a long period and held for several years (investment property) than for property that was acquired over a shorter period and held for a relatively short time (inventories). With the passage of time, cost-based measurements become increasingly irrelevant. Also, an aggregation of costs incurred over a long period is of questionable relevance.

B34 Some commentators suggested requiring (or at least permitting) entities, particularly financial institutions such as insurance companies, to use the fair value model for their owner-occupied property. They argued that some financial institutions regard their owner-occupied property as an integral part of their investment portfolio and treat it for management purposes in the same way as property leased to others. In the case of insurance companies, the property may be held to back policyholder liabilities. The Board believes that property used for similar purposes should be subject to the same accounting treatment. Accordingly, the Board concluded that no class of entities should use the fair value model for their owner-occupied property.

B35 Some commentators suggested that the definition of investment property should exclude property held for rentals, but not for capital appreciation. In their view, a fair value model may be appropriate for dealing activities, but is inappropriate where an entity has historically held rental property for many years and has no intention of selling it in the foreseeable future. They consider that holding property for long-term rental is a service activity and the assets used in that activity should be treated in the same way as assets used to support other service activities. In their view, holding an investment

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in property in such cases is similar to holding “held-to-maturity investments”, which are measured at amortised cost under IAS 39.[3]

B36 In the Board’s view, the fair value model provides useful information about property held for rental, even if there is no immediate intention to sell the property. The economic performance of a property can be regarded as being made up of both rental income earned during the period (net of expenses) and changes in the value of future net rental income. The fair value of an investment property can be regarded as a market-based representation of the value of the future net rental income, regardless of whether the entity is likely to sell the property in the near future. Also, the Standard notes that fair value is determined without deducting costs of disposal—in other words, the use of the fair value model is not intended as a representation that a sale could, or should, be made in the near future.[4]

B37 The classification of hotels and similar property was controversial throughout the project and commentators on E64 had mixed views on this subject. Some see hotels essentially as investments, while others see them essentially as operating properties. Some requested a detailed rule to specify whether hotels (and, perhaps, other categories of property, such as restaurants, bars and nursing homes) should be classified as investment property or as owner-occupied property.

B38 The Board concluded that it is preferable to distinguish investment property from owner-occupied property on the basis of general principles, rather than have arbitrary rules for specific classes of property. Also, it would inevitably be difficult to establish rigorous definitions of specific classes of property to be covered by such rules. Paragraphs ~~9–11~~ 11–13 of the Standard discuss cases such as hotels in the context of the general principles that apply when an entity provides ancillary services.

B39 Some commentators requested quantitative guidance (such as a percentage) to clarify whether an “insignificant portion” is owner-occupied (paragraph ~~8~~ 10) and whether ancillary services are “significant” (paragraphs ~~9–11~~ 11–13 of the Standard). As for similar cases in other Standards, the Board concluded that quantitative guidance would create arbitrary distinctions.

Subsequent Expenditure

B40 Some believe that there is no need to capitalise subsequent expenditure in a fair value model and that all subsequent expenditure should be recognised as an expense. However, others believe—and the Board agreed—that the failure to capitalise subsequent expenditure would lead to a distortion of the reported components of financial performance. Therefore, the Standard requires that an entity should determine whether subsequent expenditure should be capitalised using a test similar to the test used for owner-occupied property in IAS 16.

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3 IFRS 9 *Financial Instruments* eliminated the held-to-maturity category. This paragraph discusses matters relevant when IAS 40 was issued.

4 IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value and contains the requirements for measuring fair value.

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B41 Some commentators suggested that the test for capitalising subsequent expenditure should not refer to the originally assessed standard of performance. They felt that it is impractical and irrelevant to judge against the originally assessed standard of performance, which may relate to many years in the past. Instead, they suggested that subsequent expenditure should be capitalised if it enhances the previously assessed standard of performance —for example, if it increases the current market value of the property or is intended to maintain its competitiveness in the market. The Board saw some merit in this suggestion.

B42 Nevertheless, the Board believes that a reference to the previously assessed standard of performance would require substantial additional guidance, might not change the way the Standard is applied in practice and might cause confusion. The Board also concluded that it was important to retain the existing reference to the originally assessed standard of performance[5] to be consistent with IAS 16 and IAS 38.

Subsequent Measurement

Accounting Model

B43 Under IAS 25, an entity was permitted to choose from among a variety of accounting treatments for investment property (depreciated cost under the benchmark treatment in IAS 16 *Property, Plant and Equipment*, revaluation with depreciation under the allowed alternative treatment in IAS 16, cost less impairment under IAS 25 or revaluation under IAS 25).[6]

B44 E64 proposed that all investment property should be measured at fair value. Supporters of the fair value model believe that fair values give users of financial statements more useful information than other measures, such as depreciated cost. In their view, rental income and changes in fair value are inextricably linked as integral components of the financial performance of an investment property and measurement at fair value is necessary if that financial performance is to be reported in a meaningful way.

B45 Supporters of the fair value model also note that an investment property generates cash flows largely independently of the other assets held by an entity. In their view, the generation of independent cash flows through rental or capital appreciation distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not merely to property, but also to other assets used in the production or supply process. Proponents of the fair value model for investment property argue that this distinction makes a fair value model more appropriate for investment property than for owner-occupied property.

5 IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003 requires all subsequent costs to be covered by its general recognition principle and eliminated the requirement to reference the originally assessed standard of performance. IAS 40 was amended as a consequence of the change to IAS 16.

6 IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003 eliminated all references to ‘benchmark’ treatment and ‘allowed alternative’ treatments. They are replaced with cost model and revaluation model.

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B46 Those who oppose measurement of investment property at fair value argue that:

(a) there is often no active market for investment property (unlike for many financial instruments). Real estate transactions are not frequent and not homogeneous. Each investment property is unique and each sale is subject to significant negotiations. As a result, fair value measurement will not enhance comparability because fair values are not determinable on a reliable basis, especially in countries where the valuation profession is less well established. A depreciated cost measurement provides a more consistent, less volatile, and less subjective measurement;

(b) IAS 39[7] does not require fair value measurement for all financial assets, even some that are realised more easily than investment property. It would be premature to consider extending the fair value model until the Joint Working Group on financial instruments has completed its work;

(c) a cost basis is used for "shorter term" assets (such as inventories) for which fair value is, arguably, more relevant than for "held for investment" assets; and

(d) measurement at fair value is too costly in relation to the benefits to users.

B47 This is the first time that the Board has proposed requiring a fair value accounting model for non-financial assets. The comment letters on E64 showed that although many support this step, many others still have significant conceptual and practical reservations about extending a fair value model to non-financial assets, particularly (but not exclusively) for entities whose main activity is not to hold property for capital appreciation. Also, some entities feel that certain property markets are not yet sufficiently mature for a fair value model to work satisfactorily. Furthermore, some believe that it is impossible to create a rigorous definition of investment property and that this makes it impracticable to require a fair value model at present.

B48 For those reasons, the Board believes that it is impracticable, at this stage, to require a fair value model for investment property. At the same time, the Board believes that it is desirable to permit a fair value model. This evolutionary step forward will allow preparers and users to gain greater experience working with a fair value model and will allow time for certain property markets to achieve greater maturity.

B49 IAS 40 permits entities to choose between a fair value model and a cost model. An entity should apply the model chosen to all its investment property. [This choice is not available to a lessee accounting for an investment property under an operating lease as if it were a finance lease—refer to the IASB's Basis for Conclusions on the amendments made in 2003.] The fair value model is the

7 IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IAS 40 was issued.

model proposed in E64: investment property should be measured at fair value and changes in fair value should be recognised in the income statement. The cost model is the benchmark treatment[8] in IAS 16 *Property, Plant and Equipment*: investment property should be measured at depreciated cost (less any accumulated impairment losses). An entity that chooses the cost model should disclose the fair value of its investment property.

B50 Under IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*,[9] a change in accounting policies from one model to the other model should be made only if the change will result in a more appropriate presentation of events or transactions.[10] The Board concluded that this is highly unlikely to be the case for a change from the fair value model to the cost model and paragraph ~~25~~ 31 of the Standard reflects this conclusion.

B51 The Board believes that it is undesirable to permit three different accounting treatments for investment property. Accordingly, if an entity does not adopt the fair value model, the Standard requires the entity to use the benchmark treatment in IAS 16 and does not permit the use of the allowed alternative treatment. However, an entity may still use the allowed alternative for other properties covered by IAS 16.[11]

Guidance on Fair Value[12]

B52 The valuation profession will have an important role in implementing the Standard. Accordingly, in developing its guidance on the fair value of investment property, the Board considered not only similar guidance in other IASC literature, but also International Valuation Standards (IVS) issued by the International Valuation Standards Committee (IVSC). The Board understands that IVSC intends to review, and perhaps revise, its Standards in the near future.

B53 The Board believes that IASC's concept of fair value is similar to the IVSC concept of market value. IVSC defines market value as "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion". The Board believes that the guidance in paragraphs ~~29–30~~ 36, 37 and ~~32–38~~ 39–44 of the Standard is, in substance (and largely in wording as well), identical with guidance in IVS 1.[13]

8 IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003 eliminated all references to 'benchmark' treatment and 'allowed alternative' treatments.

9 revised by the IASB in 2003 as IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

10 The IASB conformed the terminology used in paragraph 31 to the terminology used in IAS 8 by *Improvements to IFRSs* issued in May 2008.

11 IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003 eliminated all references to 'benchmark' treatment and 'allowed alternative' treatments.

12 IFRS 13, issued in May 2011, contains the requirements for measuring fair value.

13 The requirements for measuring fair value in IFRS 13, issued in May 2011, differ in some respects from the guidance for measuring market value in accordance with IVS 1. IFRS 13 deleted paragraphs 36, 37 and 42–44 of IAS 40.

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B54 Paragraphs ~~31~~ 38 and ~~39–46~~ 45–52 have no direct counterpart in the IVSC literature. The Board developed much of this material in response to commentators on E64, who asked for more detailed guidance on determining the fair value of investment property. In developing this material, the Board considered guidance on fair value in other IASC Standards and Exposure Drafts, particularly those on financial instruments (IAS 32 and IAS 39[14]), intangible assets (IAS 38) and agriculture (E65).[15]

Independent Valuation

B55 Some commentators believe that fair values should be determined on the basis of an independent valuation, to enhance the reliability of the fair values reported. Others believe, on cost-benefit grounds, that IASC should not require (and perhaps not even encourage) an independent valuation. They believe that it is for preparers to decide, in consultation with auditors, whether an entity has sufficient internal resources to determine reliable fair values. Some also believe that independent valuers with appropriate expertise are not available in some markets.

B56 The Board concluded that an independent valuation is not always necessary. Therefore, as proposed in E64, the Standard encourages, but does not require, an entity to determine the fair value of all investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. This approach is consistent with the approach to actuarial valuations in IAS 19 *Employee Benefits* (see IAS 19, paragraph 57).[16]

Inability to Measure Fair Value Reliably

B57 E64 included a rebuttable presumption that an entity will be able to determine reliably the fair value of property held to earn rentals or for capital appreciation. E64 also proposed a reliability exception: IAS 16 should be applied if evidence indicates clearly, when an entity acquires or constructs a property, that fair value will not be determinable reliably on a continuing basis.

B58 Some commentators opposed various aspects of this proposal, on one or more of the following grounds:

(a) the rebuttable presumption underestimates the difficulties of determining fair value reliably. This will often be impossible, particularly where markets are thin or where there is not a well-established valuation profession;

14 IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IAS 40 was issued.

15 IFRS 13, issued in May 2011, defines fair value and contains the requirements for measuring fair value. As a consequence paragraphs 38, 45–47, 49 and 51 of IAS 40 have been deleted.

16 Paragraph 57 was renumbered as paragraph 59 when IAS 19 was amended in 2011.

(b) the accounting model under IAS 16 includes an impairment test under IAS 36. However, it is illogical to rely on an impairment test when fair value cannot be determined using cash flow projections, because an impairment test under IAS 36 is also difficult in such cases;

(c) where fair value cannot be determined reliably, this fact does not justify charging depreciation. Instead, the property in question should be measured at cost less impairment losses; and

(d) to avoid the danger of manipulation, all efforts should be made to determine fair values, even in a relatively inactive market. Even without an active market, a range of projected cash flows is available. If there are problems in determining fair value, an entity should measure the property at the best estimate of fair value and disclose limitations on the reliability of the estimate. If it is completely impossible to determine fair value, fair value should be deemed to be zero.

B59 The Board concluded that the rebuttable presumption and the reliability exception should be retained, but decided to implement them in a different way. In E64, they were implemented by excluding a property from the definition of investment property if the rebuttable presumption was overcome. Some commentators felt that it was confusing to include such a reliability exception in a definition. Accordingly, the Board moved the reliability exception from the definition to the section on subsequent measurement (paragraphs ~~47–49~~ 53–55).

B60 Under E64, an entity should not stop using the fair value model if comparable market transactions become less frequent or market prices become less readily available. Some commentators disagreed with this proposal. They argued that there may be cases when reliable estimates are no longer available and that it would be misleading to continue fair value accounting in such cases. The Board decided that it is important to keep the E64 approach, because otherwise entities might use a reliability exception as an excuse to discontinue fair value accounting in a falling market.[17]

B61 In cases where the reliability exception applies, E64 proposed that an entity should continue to apply IAS 16 until disposal of the property. Some commentators proposed that an entity should start applying the fair value model once the fair value becomes measurable reliably. The Board rejected this proposal because it would inevitably be a subjective decision to determine when fair value has become measurable reliably and this subjectivity could lead to inconsistent application.

B62 E64 proposed no specific disclosure where the reliability exception applies. Some commentators felt that disclosure would be important in such cases. The Board agreed and decided to include disclosures consistent with paragraph 170(b) of IAS 39[18] (see paragraphs ~~68 and 69(e)~~ 78 and 79(e) of

17 IFRS 13, issued in May 2011, discusses the measurement of fair value when the volume or level of activity for an asset has significantly decreased.

18 In August 2005, the IASB relocated all disclosures relating to financial instruments to IFRS 7 *Financial Instruments: Disclosures*.

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IAS 40). Paragraph 170(b) of IAS 39 requires disclosures for financial assets whose fair value cannot be reliably measured.

Gains and Losses on Remeasurement to Fair Value

B63 Some commentators argued that there should be either a requirement or an option to recognise changes in the fair value of investment property in equity, on the grounds that:

(a) the market for property is not liquid enough and market values are uncertain and variable. Investment property is not as liquid as financial instruments and IAS 39 allows an option for available-for-sale investments;[19]

(b) until performance reporting issues are resolved more generally, it is premature to require recognition of fair value changes in the income statement;

(c) recognition of unrealised gains and losses in the income statement increases volatility and does not enhance transparency, because revaluation changes will blur the assessment of an entity's operating performance. It may also cause a presumption that the unrealised gains are available for distribution as dividends;

(d) recognition in equity is more consistent with the historical cost and modified historical cost conventions that are a basis for much of today's accounting. For example, it is consistent with IASC's treatment of revaluations of property, plant and equipment under IAS 16 and with the option available for certain financial instruments under IAS 39;[20]

(e) for properties financed by debt, changes in the fair value of the properties resulting from interest rate changes should not be recognised in the income statement, since the corresponding changes in the fair value of the debt are not recognised under IAS 39;

(f) under paragraphs 92 and 93 of the *Framework*,[21] income should be recognised only when it can be measured with sufficient certainty. For example, IAS 11 *Construction Contracts*[22] requires certain conditions before an entity can use the percentage-of-completion method. These conditions are not normally met for investment property; and

(g) results from operations should be distinguished from changes in values. For example, under IAS 21, unrealised exchange differences on a foreign entity[23] are recognised in equity.

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19 IFRS 9 *Financial Instruments* eliminated the category of available-for-sale financial assets.

20 IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IAS 40 was issued.

21 The reference to the *Framework* is to the IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the Board in 2001 and in effect when the Standard was developed.

22 IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014, replaced IAS 11 *Construction Contracts*.

23 In IAS 21 *The Effects of Changes in Foreign Exchange Rates*, as revised by the IASB in 2003, the term 'foreign entity' was replaced by 'foreign operation'.

B64 Some commentators suggested that increases should be recognised in equity and decreases should be recognised in profit or loss. This is similar to the revaluation model that forms the allowed alternative treatment[24] in IAS 16 (except for the lack of depreciation).

B65 As proposed in E64, the Board concluded that, in a fair value model, changes in the fair value of investment property should be recognised in the income statement as part of profit or loss for the period. The arguments for this approach include the following:

(a) the conceptual case for the fair value model is built largely on the view that this provides the most relevant and transparent view of the financial performance of investment property. Given this, it would be inconsistent to permit or require recognition in equity;

(b) recognition of fair value changes in equity would create a mismatch because net rental income would be recognised in the income statement, whereas the related consumption of the service potential (recognised as depreciation under IAS 16) would be recognised in equity. Similarly, maintenance expenditure would be recognised as an expense while related increases in fair value would be recognised in equity;

(c) using this approach, there is no need to resolve some difficult and controversial issues that would arise if changes in the fair value of investment property were recognised in equity. These issues include the following:

(i) should fair value changes previously recognised in equity be transferred ("recycled") to profit or loss on disposal of investment property; and

(ii) should fair value changes previously recognised in equity be transferred ("recycled") to profit or loss when investment property is impaired? If so, how should such impairment be identified and measured; and

(d) given the difficulty in defining investment property rigorously, entities will sometimes have the option of applying the investment property standard or either of the two treatments in IAS 16. It would be undesirable to include two choices in the investment property standard, as this would give entities a choice (at least occasionally) between four different treatments.

24 IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003 eliminated all references to 'benchmark' treatment and 'allowed alternative' treatments.

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Transfers

B66 When an owner-occupied property carried under the benchmark treatment under IAS 16 becomes an investment property, the measurement basis for the property changes from depreciated cost to fair value. The Board concluded that the effect of this change in measurement basis should be treated as a revaluation under IAS 16 at the date of change in use. The result is that:

(a) the income statement excludes cumulative net increases in fair value that arose before the property became investment property. The portion of this change that arose before the beginning of the current period does not represent financial performance of the current period; and

(b) this treatment creates comparability between entities that had previously revalued the property under the allowed alternative treatment in IAS 16 and those entities that had previously used the IAS 16 benchmark treatment.[25]

Summary of Changes to E64

B67 The most important change between E64 and the final Standard was the introduction of the cost model as an alternative to the fair value model. The other main changes are listed below.

(a) The guidance on determining fair value was expanded, to clarify the following:[26]

(i) the fair value of investment property is not reduced by transaction costs that may be incurred on sale or other disposal (paragraph ~~30~~ 37 of the Standard). This is consistent with the measurement of financial assets under paragraph 69 of IAS 39.[27] E64 was silent on the treatment of such costs;

(ii) measurement is based on valuation at the balance sheet date (paragraph ~~31~~ 38);

(iii) the best evidence of fair value is normally given by current prices on an active market for similar property in the same location and condition and subject to similar lease and other contracts (paragraph ~~39~~ 45). In the absence of such evidence, fair value reflects information from a variety of sources and an entity needs to investigate reasons for any differences between the information from different sources (paragraphs ~~40–41~~ 46 and 47);

25 IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003 eliminated all references to 'benchmark' treatment and 'allowed alternative' treatments.

26 IFRS 13, issued in May 2011, contains the requirements for measuring fair value and for disclosing information about fair value measurements. As a consequence paragraphs 37, 38, 45–47, 49, 51 and 75(d) of IAS 40 have been deleted.

27 Paragraph 69 was replaced by paragraph 46 when the Board revised IAS 39 in 2003. IFRS 9 *Financial Instruments* deleted paragraph 46 of IAS 39.

(iv) market value differs from value in use as defined in IAS 36 *Impairment of Assets* (paragraph ~~43~~ 49);

(v) there is a need to avoid double counting of investment property and separately recognised assets and liabilities. Integral equipment (such as elevators or air-conditioning) is generally included in the investment property, rather than recognised separately (paragraph ~~44~~ 50);

(vi) the fair value of investment property does not reflect future capital expenditure that will improve or enhance the asset and does not reflect the related future benefits from this future expenditure (paragraph ~~45~~ 51);

(vii) an entity uses IAS 37 to account for any provisions associated with investment property (paragraph ~~46~~ 52); and

(viii) in the exceptional cases when fair value cannot be determined reliably, measurement is under the IAS 16 benchmark treatment[28] only (in such cases, revaluation under IAS 16 would also not be reliable) and residual value is assumed to be zero (given that fair value cannot be determined reliably) (paragraphs ~~47–48~~ 53 and 54).

(b) In relation to the scope of the Standard and the definition of investment property:

(i) paragraph ~~3~~ 4 now clarifies that the Standard does not apply to forests and similar regenerative natural resources and to mineral rights, the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources. This wording is consistent with a similar scope exclusion in IAS 16 *Property, Plant and Equipment*. The Board did not wish to prejudge its decision on the treatment of such items in the current projects on Agriculture and the Extractive Industries;

(ii) land held for a currently undetermined future use is a further example of investment property (paragraph ~~6(b)~~ 8(b)), on the grounds that a subsequent decision to use such land as inventory or for development as owner-occupied property would be an investment decision;

(iii) new examples of items that are not investment property are: property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal (paragraph ~~7(c)~~ 9(c));

28 IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003 eliminated all references to 'benchmark' treatment and 'allowed alternative' treatments.

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(iv) property that is being constructed or developed for future use as investment property is now covered by IAS 16 and measured at cost, less impairment losses, if any (paragraph ~~7(d)~~ 9(d)). E64 proposed that investment property under construction should be measured at fair value; and

(v) the reference to reliable measurement of fair value (and the related requirements in paragraphs 14–15 of E64) was moved from the definition of investment property into the section on subsequent measurement (paragraphs ~~47–49~~ 53–55).

(c) New paragraph ~~20~~ 23 deals with start up costs, initial operating losses and abnormal wastage (based on paragraphs 17 and 18 of IAS 16[29]). The Board considered adding guidance on the treatment of incidental revenue earned during the construction of investment property. However, the Board concluded that this raised an issue in the context of IAS 16 and decided that it was beyond the scope of this project to deal with this.

(d) There is an explicit requirement on determining gains or losses on disposal (paragraph ~~62~~ 69). This is consistent with IAS 16, paragraph 56.[30] There are also new cross-references to:

(i) IAS 17 *Leases* and IAS 18 *Revenue*,[31] as guidance for determining the date of disposal (paragraph ~~61~~ 67); and

(ii) IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, for liabilities retained after disposal (paragraph ~~64~~ 71).

(e) The Standard states explicitly that an entity should transfer an investment property to inventories when the entity begins to develop the property for subsequent sale in the ordinary course of business (paragraphs ~~51(b) and 52~~ 57(b) and 58). E64 proposed that all transfers from investment properties to inventories should be prohibited. The Standard also deals more explicitly than E64 with certain other aspects of transfers.

(f) New disclosure requirements include:[32]

(i) extension of the required disclosure on methods and significant assumptions, which are now to include disclosure of whether fair value was supported by market evidence, or whether the estimate is based on other data (which the entity should disclose) because of the nature of the property and the lack of comparable market data (paragraph ~~66(b)~~ 75(d));

29 In IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003, paragraphs 17 and 18 were replaced by paragraphs 19–22.

30 In IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003, paragraph 56 was replaced by paragraphs 68 and 71.

31 IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014, replaced IAS 18 *Revenue* and amended paragraph 67 of IAS 40 for consistency with the requirements in IFRS 15.

32 IFRS 13, issued in May 2011, contains the requirements for measuring fair value and for disclosing information about fair value measurements. As a consequence paragraphs 37, 38, 45–47, 49, 51 and 75(d) of IAS 40 have been deleted.

(ii) disclosures of rental income and direct operating expenses (paragraph ~~66(d)~~ 75(f)); and

(iii) disclosures in the exceptional cases when fair value is not reliably determinable (paragraphs ~~68 and 69(e)~~ 78 and 79(e)).

(g) E64 proposed a requirement to disclose the carrying amount of unlet or vacant investment property. Some commentators argued that this disclosure was impracticable, particularly for property that is partly vacant. Some also felt that this is a matter for disclosure in a financial review by management, rather than in the financial statements. The Board deleted this disclosure requirement. It should be noted that some indication of vacancy levels may be available from the required disclosure of rental income and from the IAS 17 requirement to disclose cash flows from non-cancellable operating leases (split into less than one year, one to five years and more than five years).

(h) E64 included no specific transitional provisions, which means that IAS 8 would apply. There is a risk that restatement of prior periods might allow entities to manipulate their reported profit or loss for the period by selective use of hindsight in determining fair values in prior periods. Accordingly, the Board decided to prohibit restatement in the fair value model, except where an entity has already publicly disclosed fair values for prior periods (paragraph ~~70~~ 80).

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