

TREASURY ANALYSIS – INTERNATIONAL ACCOUNTING STANDARDS

AASB 140 “Investment Property” replaces parts of AASB 1041 “Revaluation of Non-Current Assets” and AASB 1010 “Recoverable Amount of Non-Current Assets”

Major impact of changes

- This is a new standard for Australia – investment properties were previously accounted for under AASB 1041 *Revaluation of Non-Current Assets* and AASB 1010 *Recoverable Amount of Non-Current Assets*.
- Investment properties may be measured at fair value or cost.
- If measured at fair value, changes in fair value are recognised in the income statement and depreciation is not recognised.
- Any investment property interest held by a lessee under an operating lease may be classified and accounted for as investment property if the lessee uses the fair value model (para 6).
- There are additional disclosure requirements.

Key features of Standard

Scope

- *Definition* - Investment property is property (land, buildings or both) held to earn rentals or for capital appreciation or both, but excludes:
 - properties used in the production of goods and services or held for administrative purposes (i.e. owner occupied) or held for sale (para 5); and
 - property held by a not-for-profit entity to meet service delivery objectives e.g:
 - property held for strategic purposes; and
 - property held to provide a social service, including those which generate rental revenue that is incidental to the purpose for holding the property. Instead this type of property is accounted for under AASB 116 as property, plant and equipment (para Aus9.1).
- *Leases* - AASB 140 applies to measurement for:
 - Lessors - Investment property provided by lessors under operating leases (para 3).
 - Lessees - Property interest held by lessees accounted for as investment property. This includes:
 - All investment property held by a lessee under a finance lease (para 3); and
 - Property held by a lessee under an operating lease, where the entity elects to classify it as investment property. Property held by a lessee under an operating lease can only be classified and accounted for as investment property if:
 - The interest otherwise meets the definition of an investment property;
 - The operating lease is accounted for as if it were a finance lease;
 - Lessee uses the fair value model; and
 - Once this alternative is selected for one such property, all property classified as investment property is accounted for on a fair value basis (para 6).
- *Where an entity owns property that is leased to other entities within the economic group* - From the entity’s perspective, it is an investment property, if it meets the definition of an investment property. However, in the consolidated financial statements, it is owner-occupied (and therefore not an investment property)(para 15).

Measurement

- *Initial measurement* – initially recognised at cost including transaction costs (para 20). However:
 - Where acquired by a not-for-profit entity for no cost or for nominal cost, cost is deemed to be fair value (para 20.1).
 - A property interest held under a lease and classified as an investment property is recognised at the lower of the fair value and the present value of the minimum lease payments (an equivalent amount is recognised as a liability) (para 25).

- *Subsequent measurement* - at fair value or cost (para 30):
 - An entity that chooses the fair value model must measure all of its investment property at fair value (para 33).
 - If the fair value model is adopted, changes in fair value are recognised in the income statement and not the revaluation reserve as previously required under the revaluation model in AASB 1041 (paras 33-55).
 - Fair value is defined (para 5) identically to AASB 116. However, AASB 140 *qualifies* the definition as follows:
 - fair value “specifically excludes an estimated price inflated or deflated by special terms or circumstances” such as sale and leasebacks (para 36);
 - fair value reflects market conditions at the reporting date (para 38). This is discussed in detail in paras 34-52 and 77.
 - There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. The cost model in AASB 116 may be utilised where this is not the case (para 53).

Disclosure

An entity must include detailed discloses, including:

- Whether it applied the fair value or the cost model (para 75(a)).
- If the cost model is adopted, fair value (para 79(e), etc).
- Details of the methods and significant assumptions applied in determining the fair value, including an indication of whether fair value is directly supported by market evidence or other factors in the absence of comparable market data (para 75(d)).
- Whether the fair value of an investment property is based on an independent valuation (para 75(e)).
- Amounts recognised in profit or loss from rental income and direct operating expenses (from income or non-income generation properties) (para 75(f)).
- If the fair value model is applied, the extent that interests under operating leases are accounted for as investment property (para 75(b)).
- A reconciliation between the carrying amounts at the beginning and end of a reporting period, including specified components of the movement (para 76 and 79(d)).

Main differences compared to previous Australian requirements

- AASB 140 permits investment properties to be measured at cost or fair value model. However, Treasury has mandated fair value consistent with past practice for property, plant and equipment (refer TPP 05-3). Unlike the previous AASB 1041, movements in fair value will be recognised in profit and loss rather than the asset revaluation reserve and there is no depreciation.
- Under AASB 140, a property interest held by a lessee under an operating lease can be classified and accounted as investment property, in certain circumstances (as discussed above). Previously, lessees recognised operating lease payments as an expense over the lease term based on the pattern of benefit.

Impact on the public sector

- AASB 140 does not apply to property held by a not-for-profit entity to meet service delivery objectives e.g:
 - property held for strategic purposes and
 - property held to provide a social service, including those which generate rental revenue that is incidental to the purpose for holding the property. Instead this type of property is accounted for under AASB 116 as property, plant and equipment (para Aus9.1).
- Where an entity owns property that is leased to other entities within the economic group, from the entity’s perspective, it is an investment property (para 15).

Policy and Implementation issues (see attached)

Mandating Options

- Investment properties may be measured at cost or fair value. However, Treasury has mandated that all agencies must measure investment property at fair value for two reasons (refer TPP 05-3). First, this retains consistency with Treasury's treatment of property, plant and equipment. Secondly, this achieves GFS/GAAP convergence.
- Treasury has also mandated that property interests held by a lessee under an operating lease (that otherwise meet the definition of an investment property) should be classified and accounted for as investment property (refer TPP 05-3).

Other implementation issues

- Entities will need to identify and assess the accounting treatment of operating leases.
- Entities may hold investment property that was previously treated as Property, Plant and Equipment under AASB 1041 that will now be subject to a different treatment under AASB 140, because the fair value model has been mandated by NSW Treasury. Where this is the case, on first time adoption, the accumulated depreciation and asset revaluation reserve will need to be eliminated.
- However, there will be property that does not satisfy the definition of an investment property as it is held for a social service or for strategic purposes and will continue to be recognised as Property, Plant and Equipment (but also measured at fair value, but under the revaluation model in AASB 116).
- Implicit in AASB 140 is that fair value must be determined at each reporting date.

This summary has been written in general terms and is intended for general reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.

**SUMMARY OF POLICY, IMPLEMENTATION & SYSTEM ISSUES
AASB 140 “INVESTMENT PROPERTY”
TREASURY & AGENCIES**

	Issue	Treasury Policy		System/ Implementation Issue	Mandate Options for GFS Harmonisation	Budget / Total State Sector Issue
		Mandate Option	Additional Guidance			
1	Option to measure at fair value or cost.	✓ fair value			✓	✓
2	Option to account for property interests held by a lessee under an operating lease as investment property.	✓		✓	✓	✓
3	Deemed cost option – AASB 1	Exemption not available, as Treasury has mandated the fair value option				
4	Review whether property should be accounted for under AASB 140 as investment property or AASB 116 as PP&E. Accounting under AASB 140 may result in first time adoption issues i.e. adjustments may be required, as under AASB 140 there is no depreciation and no asset revaluation reserve.			✓	✓	✓