New Zealand Equivalent to International Accounting Standard 40

Investment Property (NZ IAS 40)

Issued November 2004 and incorporates amendments up to and including 31 October 2010

This Standard was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and approved by the Accounting Standards Review Board in November 2004 under the Financial Reporting Act 1993. This Standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.

This Standard, on adoption, supersedes, in full or in part, the requirements of:

- Statement of Standard Accounting Practice No. 17 *Accounting for Investment Properties and Properties Intended for Sale* (SSAP-17); and
- Financial Reporting Standard No. 3 *Property, Plant and Equipment* (FRS-3).

The following New Zealand Interpretation refers to NZ IAS 40:

- NZ SIC-21 *Income Taxes—Recovery of Revalued Non-Depreciable Assets*

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NEW ZEALAND EQUIVALENT TO INTERNATIONAL ACCOUNTING STANDARD 40
INVESTMENT PROPERTY (NZ IAS 40)

New Zealand Equivalent to International Accounting Standard 40 *Investment Property* (NZ IAS 40) is set out in paragraphs 1–86. NZ IAS 40 is based on International Accounting Standard 40 *Investment Property* (IAS 40) (2003) initially issued by the International Accounting Standards Committee (IASC) and subsequently revised by the International Accounting Standards Board (IASB). All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. NZ IAS 40 should be read in the context of its objective the IASC's and IASB's Basis for Conclusions on IAS 40 and the New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements* (NZ *Framework*). NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any additional material is shown with grey shading. The paragraphs are denoted with "NZ" and identify the types of entities to which the paragraphs apply.

This Standard uses the terminology adopted in International Financial Reporting Standards (IFRSs) to describe the financial statements and other elements. NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007) paragraph 5 explains that entities other than profit-oriented entities seeking to apply the Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves. For example, profit/loss may be referred to surplus/deficit and capital or share capital may be referred to as equity.

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IAS 40 *Investment Property*

This table lists the pronouncements establishing and substantially amending NZ IAS 40. The table is based on amendments approved as at 31 October 2010.

Pronouncements	**Date approved (ASRB approval)**	**Early operative date**	**Effective date (annual reporting periods… on or after …)**
NZ IAS 40 *Property, Plant and Equipment*	Nov 2004 (Approval 30)	1 Jan 2006 Early application encouraged	1 Jan 2007
Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to IFRSs Financial Reporting Standards Reporting Regime (Framework for Differential Reporting)	Jun 2005 (Approval 62)	1 Jan 2005	1 Jan 2007
Amendment to the *Framework for Differential Reporting*	Dec 2005 (Approval 76)	1 Jan 2005	1 Jan 2007
Omnibus Amendments (2006-01)	Dec 2006 (Approval 86)	Early application encouraged	1 Jan 2007
NZ IAS 1 *Presentation of Financial Statements* (revised 2007)	Nov 2007 (Approval 94)	Early application encouraged	1 Jan 2009
Improvements to NZ IFRSs	June 2008 (Approval 102)	Early application permitted	1 Jan 2009
Minor Amendments to NZ IFRSs	July 2010 (Approval 132)	Immediate	Immediate

Table of Amended Paragraphs in NZ IAS 40		
Paragraph affected	**How affected**	**By … [date]**
Paragraph NZ 4.1	Inserted	Amendment to the *Framework for Differential Reporting* [Dec 2005]
Paragraph 8	Amended	*Improvements to NZ IFRSs* [June 2008]
Paragraph 9	Amended	*Improvements to NZ IFRSs* [June 2008]
Paragraph 22	Deleted	*Improvements to NZ IFRSs* [June 2008]
Paragraph NZ 33.1	Amended	*Omnibus Amendments* (2006-01) [Dec 2006]
Paragraph 48	Amended	*Improvements to NZ IFRSs* [June 2008]
Paragraph 50	Amended	*Improvements to NZ IFRSs* [June 2008]
Paragraph 53	Amended	*Improvements to NZ IFRSs* [June 2008]
Paragraph 53A	Inserted	*Improvements to NZ IFRSs* [June 2008]
Paragraph 53B	Inserted	*Improvements to NZ IFRSs* [June 2008]
Paragraph 54	Amended	*Improvements to NZ IFRSs* [June 2008]
Paragraph 57	Amended	*Improvements to NZ IFRSs* [June 2008]
Paragraph 62	Amended	NZ IAS 1 [Nov 2007]
Paragraph 85A	Inserted	NZ IAS 1 [Nov 2007]
Paragraph 85B	Inserted	*Improvements to NZ IFRSs* [June 2008]

Introduction to NZ IAS 40

The Standard prescribes the recognition and measurement of investment property and related disclosure requirements.

In adopting IAS 40 for application as NZ IAS 40 the following changes have been made. NZ IAS 40:

(a) includes a definition of public benefit entities (paragraph NZ 5.1);

(b) in respect of public benefit entities, includes additional examples of properties that are not investment properties (paragraph NZ 9.1);

(c) requires that public benefit entities that have received an investment property for no or nominal cost use fair value as the deemed cost for initial recognition (paragraph NZ 20.1);

(d) requires that entities use the fair value model to account for investment properties. A number of editorial changes have been made to remove reference to the cost model throughout the Standard (paragraphs 30-32);

(e) requires valuations to be conducted either by an independent valuer or by an experienced employee so long as the basis of valuation is subject to review by an independent valuer (paragraph NZ 33.1); and

(f) requires entities to disclose details of each valuer employed (paragraph NZ 75.1).

Profit-oriented entities, other than qualifying entities applying any differential reporting concessions, that comply with NZ IAS 40 will simultaneously be in compliance with IAS 40. Public benefit entities using the “NZ” paragraphs in the Standard that specifically apply to public benefit entities may not simultaneously be in compliance with IAS 40. Whether a public benefit entity will be in compliance with IAS 40 will depend on whether the “NZ” paragraphs provide additional guidance for public benefit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the public benefit entity.

Differential Reporting

Qualifying entities are given a concession to the requirements of this Standard (as identified in the Standard).

New Zealand Equivalent to International Accounting Standard 40

Investment Property (NZ IAS 40)

Objective

1 The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope

2 This Standard shall be applied in the recognition, measurement and disclosure of investment property.

3 Among other things, this Standard applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with matters covered in NZ IAS 17 *Leases*, including:

(a) classification of leases as finance leases or operating leases;

(b) recognition of lease income from investment property (see also NZ IAS 18 *Revenue*);

(c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;

(d) measurement in a lessor's financial statements of its net investment in a finance lease;

(e) accounting for sale and leaseback transactions; and

(f) disclosure about finance leases and operating leases.

4 This Standard does not apply to:

(a) biological assets related to agricultural activity (see NZ IAS 41 *Agriculture*); and

(b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

Qualifying Entities

NZ 4.1 Entities which qualify for differential reporting concessions in accordance with the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime* (2005) may account for investment properties in accordance with:

(a) NZ IAS 40. Under NZ IAS 40 an entity is required, after initial recognition, to measure investment property at its fair value at the end of the reporting period (paragraphs 33 and 38); or

(b) the cost model in NZ IAS 16.

Definitions

5 **The following terms are used in this Standard with the meanings specified:**

***Carrying amount* is the amount at which an asset is recognised in the statement of financial position.**

***Cost* is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other New Zealand equivalents to IFRSs, eg NZ IFRS 2 *Share-based Payment*.**

***Fair value* is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.**

***Investment property* is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:**

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

***Owner-occupied property* is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.**

Public Benefit Entities

NZ 5.1 The following term is used in this Standard with the meaning specified:

***Public benefit entities* are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.**

6 **A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs 33–55 for the asset recognised. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 74–78.**

7 Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This 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 only to property, but also to other assets used in the production or supply process. NZ IAS 16 *Property, Plant and Equipment* applies to owner-occupied property.

8 The following are examples of investment property:

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.

(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)

(c) a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases.

(d) a building that is vacant but is held to be leased out under one or more operating leases.

(e) property that is being constructed or developed for future use as investment property.

9 The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

(a) property intended for sale in the ordinary course of business or in the process of construction or development for such sale (see NZ IAS 2 *Inventories*), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.

(b) property being constructed or developed on behalf of third parties (see NZ IAS 11 *Construction Contracts*).

(c) owner-occupied property (see NZ IAS 16), including (among other things) 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.

(d) [deleted by IASB]

(e) property that is leased to another entity under a finance lease.

Public Benefit Entities

NZ 9.1 In respect of public benefit entities, property may be held to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property and will be accounted for under NZ IAS 16, for example:

(a) property held for strategic purposes; and

(b) property held to provide a social service, including those which generate cash inflows where the rental revenue is incidental to the purpose for holding the property.

10 Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

11 In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when the owner of an office building provides security and maintenance services to the lessees who occupy the building.

12 In other cases, the services provided are significant. For example, if an entity owns and manages a hotel, services provided to guests are significant to the arrangement as a whole. Therefore, an owner-managed hotel is owner-occupied property, rather than investment property.

13 It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, the owner of a hotel sometimes transfers some responsibilities to third parties under a management contract. The terms of such contracts vary widely. At one end of the spectrum, the owner's position may, in substance, be that of a passive investor. At the other end of the spectrum, the owner may simply have outsourced day-to-day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.

14 Judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs 7–13. Paragraph 75(c) requires an entity to disclose these criteria when classification is difficult.

15 In some cases, an entity owns property that is leased to, and occupied by, its parent or another subsidiary. The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 5. Therefore, the lessor treats the property as investment property in its individual financial statements.

Recognition

16 Investment property shall be recognised as an asset when, and only when:

(a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and

(b) the cost of the investment property can be measured reliably.

17 An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.

18 Under the recognition principle in paragraph 16, an entity does not recognise in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the cost of labour and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the property.

19 Parts of investment properties may have been acquired through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognises in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard.

Measurement at recognition

20 An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.

Public Benefit Entities

NZ 20.1 In respect of public benefit entities, notwithstanding paragraph 20, where an investment property is acquired at no cost or for nominal cost, its cost shall be deemed to be its fair value as at the date of acquisition.

21 The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

22 [Deleted by IASB]

23 The cost of an investment property is not increased by:

(a) start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management),

(b) operating losses incurred before the investment property achieves the planned level of occupancy, or

(c) abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.

24 If payment for an investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit.

25 The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 20 of NZ IAS 17, ie the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph.

26 Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on determining the fair value of a property interest is set out for the fair value model in paragraphs 33–52. That guidance is also relevant to the determination of fair value when that value is used as cost for initial recognition purposes.

27 One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an investment property is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

28 An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred, or

(b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange, and

(c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

29 The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Measurement after Recognition

Accounting policy

30–32 [Paragraphs 30 to 32 are not reproduced in this Standard. An entity is not permitted to use the cost model except in the circumstances outlined in paragraph 53.]

32A–32C [Paragraphs 32A to 32C are not reproduced in this Standard. An entity is not permitted to use the cost model except in the circumstances outlined in paragraph 53.]

Fair value model

33 After initial recognition, an entity shall measure all of its investment property at fair value, except in the cases described in paragraph 53.*[*]

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* Paragraph 33 has been amended to reflect the fact that an entity is not permitted to use the cost model except in the circumstances outlined in paragraph 53.

All Entities

NZ 33.1 Valuations shall be conducted either:

- **(a) by an independent valuer; or**
- **(b) where an entity employs a person sufficiently experienced to conduct a valuation, by that person, so long as the valuation has been subject to review by an independent valuer.**

NZ 33.2 The fair value of investment property is determined or reviewed 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.

34 When a property interest held by a lessee under an operating lease is classified as an investment property under paragraph 6 the fair value model shall be applied.

35 A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.

36 The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction (see paragraph 5). Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale.

37 An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal.

38 The fair value of investment property shall reflect market conditions at the end of the reporting period.

39 Fair value is time-specific as of a given date. Because market conditions may change, the amount reported as fair value may be incorrect or inappropriate if estimated as of another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous.

40 The fair value of investment property reflects, among other things, rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property. Some of those outflows are reflected in the liability whereas others relate to outflows that are not recognised in the financial statements until a later date (eg periodic payments such as contingent rents).

41 Paragraph 25 specifies the basis for initial recognition of the cost of an interest in a leased property. Paragraph 33 requires the interest in the leased property to be remeasured, if necessary, to fair value. In a lease negotiated at market rates, the

fair value of an interest in a leased property at acquisition, net of all expected lease payments (including those relating to recognised liabilities), should be zero. This fair value does not change regardless of whether, for accounting purposes, a leased asset and liability are recognised at fair value or at the present value of minimum lease payments, in accordance with paragraph 20 of NZ IAS 17. Thus, remeasuring a leased asset from cost in accordance with paragraph 25 to fair value in accordance with paragraph 33 should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair value model is made after initial recognition.

42 The definition of fair value refers to "knowledgeable, willing parties". In this context, "knowledgeable" means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and market conditions at the end of the reporting period. A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. The assumed buyer would not pay a higher price than a market comprising knowledgeable, willing buyers and sellers would require.

43 A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in current market conditions. The willing seller is motivated to sell the investment property at market terms for the best price obtainable. The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner (eg a willing seller would not take into account the particular tax circumstances of the actual investment property owner).

44 The definition of fair value refers to an arm's length transaction. An arm's length transaction is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently.

45 The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.

46 In the absence of current prices in an active market of the kind described in paragraph 45, an entity considers information from a variety of sources, including:

(a) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

47 In some cases, the various sources listed in the previous paragraph may suggest different conclusions about the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a range of reasonable fair value estimates.

48 In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the variability in the range of reasonable fair value estimates will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single estimate of fair value is negated. This may indicate that the fair value of the property will not be reliably determinable on a continuing basis (see paragraph 53).

49 Fair value differs from value in use, as defined in NZ IAS 36 *Impairment of Assets*. Fair value reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's estimates, including the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to knowledgeable, willing buyers and sellers:

(a) additional value derived from the creation of a portfolio of properties in different locations;

(b) synergies between investment property and other assets;

(c) legal rights or legal restrictions that are specific only to the current owner; and

(d) tax benefits or tax burdens that are specific to the current owner.

50 In determining the carrying amount of investment property under the fair value model, an entity does not double-count assets or liabilities that are recognised as separate assets or liabilities. For example:

(a) equipment such as lifts or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognised separately as property, plant and equipment.

(b) if an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental income relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognise that furniture as a separate asset.

(c) the fair value of investment property excludes prepaid or accrued operating lease income, because the entity recognises it as a separate liability or asset.

(d) the fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognised lease liability, to arrive at the carrying amount of the investment property using the fair value model.

51 The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.

52 In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognised liabilities) will exceed the present value of the related cash receipts. An entity applies NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to determine whether to recognise a liability and, if so, how to measure it.

Inability to Determine Fair Value Reliably

53 There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity shall measure that investment property using the cost model in NZ IAS 16. The residual value of the investment property shall be assumed to be zero. The entity shall apply NZ IAS 16 until disposal of the investment property.

53A Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 53, the property shall be accounted for using the cost model in accordance with NZ IAS 16.

53B The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured an item of investment property under construction at fair value may not conclude that the fair value of the completed investment property cannot be determined reliably.

54 In the exceptional cases when an entity is compelled, for the reason given in paragraph 53, to measure an investment property using the cost model in accordance with NZ IAS 16, it measures at fair value all its other investment property, including investment property under construction. In these cases, although an entity may use the cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.

55 If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of business) even if comparable market transactions become less frequent or market prices become less readily available.

Cost Model

56 [Paragraph 56 is not reproduced in this Standard. An entity is not permitted to use the cost model except in the circumstances outlined in paragraph 53.]

Transfers

57 Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

(a) commencement of 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

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

(e) [deleted by IASB]

58 Paragraph 57(b) requires an entity to transfer a property from 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 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.

59 Paragraphs 60–65 apply to recognition and measurement issues that arise when an entity uses the fair value model for investment property. [Final sentence of paragraph 59 deleted in NZ IAS 40 – an entity is not permitted to use the cost model except in the circumstances outlined in paragraph 53.]

60 For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with NZ IAS 16 or NZ IAS 2 shall be its fair value at the date of change in use.

61 If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply NZ IAS 16 up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with NZ IAS 16 and its fair value in the same way as a revaluation in accordance with NZ IAS 16.

62 Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property and recognises any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with NZ IAS 16 and its fair value in the same way as a revaluation in accordance with NZ IAS 16. In other words:

(a) any resulting decrease in the carrying amount of the property is recognised in profit or loss. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is recognised in other comprehensive income and reduces the revaluation surplus within equity.

(b) any resulting increase in the carrying amount is treated as follows:

(i) to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss. The amount recognised in profit or loss does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised.

(ii) any remaining part of the increase is recognised in other comprehensive income and increases the revaluation surplus within equity. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through profit or loss.

63 **For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.**

64 The treatment of transfers from inventories to investment property that will be carried at fair value is consistent with the treatment of sales of inventories.

65 **When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.**

Disposals

66 **An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.**

67 The disposal of an investment property may be achieved by sale or by entering into a finance lease. In determining the date of disposal for investment property, an entity applies the criteria in NZ IAS 18 for recognising revenue from the sale of goods and considers the related guidance in the Appendix to NZ IAS 18. NZ IAS 17 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

68 If, in accordance with the recognition principle in paragraph 16, an entity recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part. Under the fair value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement. [Second sentence deleted in NZ IAS 40 – an entity is not permitted to use the cost model except in the circumstances outlined in paragraph 53.]

69 **Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss (unless NZ IAS 17 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.**

70 The consideration receivable on disposal of an investment property is recognised initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and

the cash price equivalent is recognised as interest revenue in accordance with NZ IAS 18 using the effective interest method.

71 An entity applies NZ IAS 37 or other Standards, as appropriate, to any liabilities that it retains after disposal of an investment property.

72 Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in profit or loss when the compensation becomes receivable.

73 Impairments or losses of investment property, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(a) impairments of investment property are recognised in accordance with NZ IAS 36;

(b) retirements or disposals of investment property are recognised in accordance with paragraphs 66–71 of this Standard;

(c) compensation from third parties for investment property that was impaired, lost or given up is recognised in profit or loss when it becomes receivable; and

(d) the cost of assets restored, purchased or constructed as replacements is determined in accordance with paragraphs 20–29 of this Standard.

Disclosure

Fair value model and cost model

74 The disclosures below apply in addition to those in NZ IAS 17. In accordance with NZ IAS 17, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under a finance or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

75 An entity shall disclose:

(a) whether it applies the fair value model or, in the exceptional cases described in paragraph 53, when an entity cannot determine the fair value of the investment property reliably, the cost model.[*]

[*] Paragraph 75(a) has been amended to reflect the fact that under NZ IAS 40 an entity is not permitted to use the cost model, except in the circumstances outlined in paragraph 53.

(b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.

(c) when classification is difficult (see paragraph 14), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.

(d) the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data.

(e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.

(f) the amounts recognised in profit or loss for:

(i) rental income from investment property;

(ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and

(iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.

(iv) [Paragraph 75(f)(iv) is not reproduced in this Standard. An entity is not permitted to use the cost model except in the circumstances outlined in paragraph 53.]

(g) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

(h) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

All Entities

NZ 75.1 An entity shall disclose in respect of each valuer employed:

(a) the name of the valuer;

(b) the total fair value of property valued by that valuer; and

(c) the date(s) of such valuations.

Fair value model

76 **In addition to the disclosures required by paragraph 75, an entity that applies the fair value model in paragraphs 33–55 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:**

(a) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset;

(b) additions resulting from acquisitions through business combinations;

(c) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with NZ IFRS 5 and other disposals;

(d) net gains or losses from fair value adjustments;

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

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

(g) other changes.

77 **When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 50, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back, and any other significant adjustments.**

78 **In the exceptional cases referred to in paragraph 53, when an entity measures investment property using the cost model in NZ IAS 16, the reconciliation required by paragraph 76 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:**

(a) a description of the investment property;

(b) an explanation of why fair value cannot be determined reliably;

(c) if possible, the range of estimates within which fair value is highly likely to lie; and

(d) on disposal of investment property not carried at fair value:

(i) the fact that the entity has disposed of investment property not carried at fair value;

(ii) **the carrying amount of that investment property at the time of sale; and**

(iii) **the amount of gain or loss recognised.**

Cost model

79 **In the exceptional cases described in paragraph 53, when an entity cannot determine the fair value of the investment property reliably and measures that investment property using the cost model in NZ IAS 16, it shall also disclose:**

(a) **the depreciation methods used;**

(b) **the useful lives or the depreciation rates used; and**

(c) **the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.**

(d) [Paragraph 79(d) is not reproduced in this Standard. An entity is not permitted to use the cost model, except in the circumstances outlined in paragraph 53]

(e) [Paragraph 79(e) is not reproduced in this Standard. An entity is not permitted to use the cost model, except in the circumstances outlined in paragraph 53]

Transitional provisions

80–84 [Paragraphs 80 to 84 have not been reproduced. The transitional provisions in IAS 40 are not applicable to entities adopting NZ IAS 40].

Effective date

85 This Standard becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Standard is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.

85A NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout New Zealand equivalents to IFRSs. In addition it amended paragraph 62. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies NZ IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

85B Paragraphs 8, 9, 48, 53, 54 and 57 were amended, paragraph 22 was deleted and paragraphs 53A and 53B were added by *Improvements to NZ IFRSs* issued in June 2008. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2009. An entity is permitted to apply the amendments to investment property under construction from any date before 1 January 2009 provided that the fair values of investment properties under construction were determined at those dates. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and at the same time apply the amendments to paragraphs 5 and 81E of NZ IAS 16 *Property, Plant and Equipment*.

Withdrawal of IAS 40 (2000)

86 [Paragraph 86 is not reproduced. The withdrawal of previous IASB pronouncements is not relevant to this Standard.]

