PBE IFRS 16 Investment Property – Difference to NZ IFRS (PBE)

An investment property is property held to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, administrative purposes, or for sale in the ordinary course of operations.

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, 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.

Both PBE IPSAS 16 and NZ IAS 40 (PBE) require property that is held to meet service delivery objectives (e.g. houses rented to low income families) are to be accounted for as property plant and equipment rather than investment property.

	NZ IAS 40 (PBE)	PBE IPSAS 16	Difference
1	Under NZ IAS 40 (PBE) the criteria for recognition of an investment property include: (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. The NZ IAS 40 (PBE) criteria makes no mention of *service potential* (referred to in PBE IPSAS16.20(a)). In addition, the PBE-inserted paragraph NZ 20.1 states that 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. NZ IAS 40.16 and 40.NZ20.1	The criteria for recognition of an investment property is slightly different and requires that for investment property: (a) It is probable that the future economic benefits or *service potential* that are associated with the investment property will flow to the entity; and (b) The cost or *fair value* of the investment property can be measured reliably. The reference to service potential is new. While both PBE IPSAS 16 and NZ IAS40 (PBE) require that donated investment property is measured at fair value at acquisition date, only PBE IPSAS 16 makes reference to being able to measure fair value reliably. PBE IPSAS 16.20-22	The criteria for recognition of an investment property have been expanded to embody service potential in addition to economic benefits. In addition, while both standards require that investment properties acquired through a non-exchange transaction are measured at fair value, the explicit requirement that this must be able to be measured reliably is new in PBE IPSAS 16. However, although this opens the possibility to different accounting treatment we do not expect either of these differences will lead to any significant change to current practice under NZ IFRS (PBE).

	NZ IAS 40 (PBE)	PBE IPSAS 16	Difference
2	Subsequent to initial recognition, NZ IAS 40 (PBE) allows an entity to: (a) choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and (b) choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a). NZ IAS 40.32A	Subsequent to recognition, an entity shall choose as its accounting policy either the fair value model or the cost model. This model must be applied to all investment properties. PBE IPSAS 16.39	An entity that has previously been applying more than one accounting policy for the valuation of investment property now will need to adopt a single accounting policy[1].

[1] An entity changing its policy should note that PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. We note that it is a high hurdle to claim a change from the fair value model to the cost model will result in a more relevant presentation.