STAFF PAPER

22–23 January 2013

IFRS Interpretations Committee Meeting

Project	IAS 40 *Investment Property*
Paper topic	Accounting for a structure that appears to lack the physical characteristics of a building

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Introduction

1. The IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify whether telecommunication towers in a jurisdiction should be accounted for as property, plant and equipment (PP&E), in accordance with IAS 16 *Property, Plant and Equipment*, or as an investment property, in accordance with IAS 40 *Investment Property*. The request describes a circumstance in which an entity owns telecommunication towers and receives rent revenue in exchange for leasing spaces in the towers to telecommunication operators, to which they attach their own devices. The entity provides some basic services to the telecommunication operators such as maintenance services. Those towers used to be owned by telecommunication operators. The leasing of spaces in the tower is an emerging business model.

2. Key physical characteristics of the towers described in the submission are that the towers (a) do not have walls, floors, or a roof (they consist only of steel frames) and (b) are permanently constructed on a piece of land (it would require significant costs to relocate, dismantle, or reconstruct them).

3. In this request, the submitter is specifically seeking a clarification on:

   (a) whether a telecommunication tower should be viewed as a ‘building’ and thus ‘property’, as described in paragraph 5 of IAS 40; and

(b) how the service element in the leasing agreement and business model of the entity should be taken into consideration when analysing this issue.

4. The Interpretations Committee noted that central to this issue is the meaning of the term 'building' in paragraph 5 of IAS 40, which could determine whether the tower meets the definition of the term 'property' in paragraph 5 of IAS 40 (issue (a) above). With regard to issue (b), the Interpretations Committee noted that an entity is required to exercise its judgement to assess whether ancillary services provided by the entity are significant to the arrangement as a whole, in accordance with paragraph 14 of IAS 40 (ie whether the property is 'owner-occupied'). Accordingly, the Interpretations Committee focused on issue (a) in its discussions.

5. The Interpretations Committee agreed that the tower in the submission has some of the characteristics of investment property, in that spaces in the tower are let to tenants to earn rentals. However, the Interpretations Committee expressed concerns as following:

(a) It is questionable whether the tower qualifies as a 'building' because it lacks features usually associated with a building[1] such as walls, floors and a roof.

(b) The same question could arise about other structures, such as gas storage tanks and advertising billboards.

6. On the basis of the discussions above, the Interpretations Committee requested the staff to perform further analysis on this issue so that the Interpretations Committee can consider whether amendments to the scope of IAS 40 could or should be made. Accordingly, this Agenda Paper contains updates the Interpretations Committee on the staff analysis on this issue along with proposed alternative approaches to amending IAS 40.

7. This Agenda Paper is organised as follows:

(a) summary of outreach activities

(b) updates on other major projects

[1] The *Oxford Dictionary of English* defines a 'building' as 'a structure with a roof and walls, such as a house or factory'.

(c) updates on technical analysis

(d) proposed alternative approaches to amending IAS 40

(e) assessment against agenda criteria and annual improvement criteria

(f) staff recommendation

(g) Appendix A—Proposed wordings of alternative approaches to amendments to IAS 40

(h) Appendix B—Illustrative examples of application of each alternative approach and current requirements in IAS 40

(i) Appendix C—Excerpt from US GAAP.

Summary of outreach activities

8. Because we presented the results of our outreach activities only orally in the last meeting, we summarise the results of the outreach in the following paragraphs. Excerpts from the outreach request are attached as Appendix B to Agenda Paper 13 for the September 2012 meeting.

9. The views expressed below are informal opinion from national standard-setters and regulators. They do not reflect the formal views of those organisations. The geographical breakdown for the responses is as follows:

Geographical area	**Number of respondents**
Americas	1
Asia/Oceania	6
Africa	1
Europe	6
Worldwide	1
Total respondents	**15**

10. Of the fifteen respondents, four respondents stated that they are aware of the same or similar transactions in their jurisdiction. One other jurisdiction said that this

type of transaction is currently not common but will become relevant in the near future because of recent business developments in the jurisdiction.

11. With regard to the prevalent accounting for the transactions, they stated that the transaction is accounted for as PP&E in accordance with IAS 16 in the all four jurisdictions. **No jurisdiction stated that there is a significant diversity in practice in the accounting for the transaction.**

12. Three respondents out of those four respondents mentioned that the rationale for accounting for the transaction as an item of PP&E under IAS 16 is that **such a telecommunication tower is viewed as equipment rather than a building** and therefore fails to meet the definition of investment property in paragraph 5 of IAS 40. This is primarily because the tower lacks physical characteristics associated with general buildings (ie walls, floors and a roof). The remaining respondent stated that the primary reason for that accounting is that the owner of the tower provides significant ancillary services to the tenants.

Updates on other major projects

Investment Entities project

13. In the September 2012 meeting, the Interpretations Committee raised a concern that amending the scope of IAS 40 might have an implication for deciding whether an entity qualifies as an investment entity under the new requirements proposed in the Investment Entities project. This is because at that time it was not clear whether assets measured at fair value, with fair value changes recognised in other comprehensive income, meet one of the criteria for qualifying as an investment entity. That criterion requires an entity to measure and evaluate the performance of substantially all of its investments on a fair value basis.

14. In the IASB meeting in September 2012, the IASB agreed that fair value measurement with fair value changes recognised in other comprehensive income would be considered to meet the fair value measurement component of the definition of an investment entity. This language is now included in the Basis for Conclusions for *Investment Entities* (Amendments to IFRS 10, IFRS 12 and

IAS 27) issued in October 2012 (paragraph BC251 of the Basis for the Conclusions).

15. According to the project staff, the fair value measurement component of the definition of an investment entity in paragraph 27(c) of the Amendments could be met if an investment entity measures a telecommunications tower at fair value **regardless of whether the entity accounts for that asset under the revaluation model in IAS 16 or the fair value model in IAS 40**. Consequently, we think that changing the scope of IAS 40 would not have a significant consequence on an entity that wants to qualify as an investment entity in accordance with the Amendments.

Leases project

16. As stated in the Agenda Paper for the September 2012 meeting, under the new proposed lease accounting model, the guidance for deciding (a) how a lessor accounts for a lease and (b) how a lessee recognises lease-related expenses in profit or loss depends, to a large extent, on whether the lease is a lease of property or a lease of an asset other than property.

17. The staff on the Leases project are currently assessing to what extent they should include guidance on the definition of the term 'property' in the revised Exposure Draft on leases. The Exposure Draft is scheduled to be published in Q1 of 2013.

Updates on technical analysis

18. We first analysed what assets IAS 40 intends to address, and the underlying principles of IAS 40, to help the Interpretations Committee to assess whether IAS 40 could be or should be amended to deal with this issue.

19. The accounting for investment property was originally addressed in IAS 25 *Accounting for Investments*, which was withdrawn in 2000 when IAS 40 was issued. IAS 25 originally covered recognition and measurement of various types of assets such as debt and equity investments, as well as investments in land and buildings and other tangible and intangible assets that were held as investments

before IAS 38, *Intangible Assets*, IAS 39, *Financial Instruments: Recognition and Measurement* and IAS 40 were issued.

20. On the basis of our analysis of the history and the Basis for Conclusions of IAS 40, **it is not necessarily clear what types of assets were envisaged in either IAS 25 or IAS 40**. However, from a general point of view, it might be reasonable to interpret IAS 25 and IAS 40 as having envisaged a 'real-estate-type' asset, which primarily includes land and a normal building that can house businesses and people. This is also consistent with general perceptions in accounting practice as presented in the result of our outreach activities.

21. The underlying rationale for requiring fair value information of investment property is 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**" (paragraph B6 of the Basis for Conclusions of IAS 40). Regarding the characteristics of investment property, the Basis for Conclusions states that "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" (paragraph B45 of the Basis for Conclusions of IAS 40). **Accordingly, we think that the focus of IAS 40 is the asset's characteristic that it generates cash flow largely independently of the other assets.**

22. The requirements of IAS 40 have been designed so that the more narrowly the term 'property' in paragraph 5 of IAS 40 is interpreted, the fewer assets need to be analysed to decide whether they are 'owner-occupied' property. Too narrow interpretations of the term 'property' could result in accounting differently for assets that have similar characteristics to those associated with investment property.

23. In this sense, we do not believe that whether an asset meets the definition of the term 'property' should be determined solely on the basis of the physical appearance of the structures, such as whether they have walls, floors or a roof. For example, in our view, the telecommunication tower described in the

submission should be viewed as a ‘property’ and assessed on the basis of whether it is an ‘owner-occupied’ property. This is because we think that they have an ability to generate cash flows largely independently of their other assets, by letting spaces in the structure to tenants.

24. As explained in the results of the outreach, there is no significant divergence in the accounting practice for this type of transaction except in the submitter’s jurisdiction. However, considering that the transaction described in the submission is an emerging business model and that the same question could arise about other types of PP&E, we think that we should take some action to clarify the scope of IAS 40 in order to achieve consistent interpretations and application of IAS 40.

25. On balance, we thought that **it is appropriate to propose amendments to IAS 40 so that structures that should be assessed against the owner-occupied criteria under IAS 40 are not limited to structures traditionally considered to be buildings, without expanding the scope of IAS 40 to non-real-estate-type assets.**

26. In the following paragraphs, we explore approaches to amending IAS 40 that we think could achieve this balance in order to help the Interpretations Committee to decide whether IAS 40 could be or should be amended.

Proposed alternative approaches to amending IAS 40

27. We thought that the following two approaches could be considered as being alternative approaches to amending IAS 40:

    (a) Approach A: amend the definition of “investment property” in paragraph 5 **using the notion of an ‘integrated group of assets’ as currently partly used in paragraph 50 of IAS 40**.

    (b) Approach B: amend the definition of “investment property” **by clarifying the term ‘building’ using the ‘land element’ notion**.

28. The wording of amendments to paragraph 5 of IAS 40 taking each approach is fully described in Appendix A to this Agenda Paper. In addition, in response to

the concern raised by the Interpretations Committee in the last meeting, we also prepared a table in Appendix B that illustrates examples of various types of assets and transactions, and the classification of those assets by using each approach as well as by applying the current requirements in IAS 40.

29. Please note however that **the analysis of the classification presented in the table does not take into account whether significant ancillary services are provided by the owner of the assets and are therefore viewed as 'owner-occupied property'.** As discussed earlier, this Agenda Paper intends to analyse the scope of the term 'property' as used in paragraph 5 of IAS 40. The analysis of whether the property is 'owner-occupied property' is the second step in the analysis of the scope of investment property under IAS 40. **Even though we think that the second step is a key to the analysis of the scope, the analysis should be performed by the entity using its own judgement on the basis of facts and circumstances that are specific to the arrangement and to the entity (paragraph 14 of IAS 40)**.

30. In the case of a telecommunication tower, for example, even if a telecommunication tower is viewed as a "property" for the purpose of IAS 40, the telecommunication tower could be concluded as being 'owner-occupied' and outside the scope of IAS 40. This is the case when the owner of the tower is also a telecommunication operator and uses a significant portion of the tower for its own telecommunication business unless the portion not used by the entity can be sold separately or leased out separately under a finance lease. Another example could be pipelines buried in the ground (Example 2 in the table in Appendix B). These could be viewed as owner-occupied property not only if the entity transports its own commodity through the pipeline, but also in the case of the pipeline being used to transport the product of other entities if the owner of the pipelines provides significant services such as pumping other entities' commodity through the pipelines and maintaining the quality of the commodity during the transfer. In this case, we think that the pipelines could be viewed as being used for transportation service rather than for rental of spaces.

31. In addition, using either approach, we are not proposing amendments to paragraph 50 of IAS 40 because the requirements in that paragraph address the fair value

measurement of investment property and not the scope of IAS 40. Furthermore, as stated in Agenda Paper for the previous meeting, we think that **the clarification of the term 'property', if necessary, should be limited to the context of the scope of IAS 40** because clarifying the term 'property' for the purpose of the entire IFRSs would affect requirements in other Standards and the ongoing Lease project.

32. However, we think that progress on this IAS 40 issue could and should be made in parallel with the Leases project. We note that we will need to monitor progress and review guidance on the definition of the term 'property' to be proposed in the Leases project after the Leases Exposure Draft is published.

Approach A

33. This approach is intended to distinguish the real-estate-type assets from other types of assets by amending the definition of the term 'property' to include any property improvements and equipment in the term 'property' if they form part of an integrated group of assets that include land or a building, or both ("integral **group** approach").

34. This notion is basically built on the current requirement in paragraph 50 of IAS 40, which requires equipment to be included in the fair value measurement of dominant investment property which the equipment is an integral part of ("integral **part** approach"). Furthermore, some interested parties would be familiar with this 'integral part approach' because this approach is also used in the requirements related to the sale of 'real estate' under US GAAP (see Appendix C for the relevant excerpt from US GAAP).

35. In this regard, we think that Approach A would be more understandable and acceptable for interested parties than Approach B would be. Nevertheless, Approach A is slightly different from the integral part approach in paragraph 50 of IAS 40.

36. Under the integral part approach, the fixed equipment would not be classified as investment property if the equipment is predominant as compared to the investment property. For example, an oil refinery might involve high capital

investment relative to the land and have a limited life. In such a situation, it could be argued that the equipment component is predominant rather than being merely a part of the land component in the leasing agreement. Under the integral group approach (Approach A), it would not matter whether the equipment is predominant as compared to other assets such as property within the group.

37. Opponents of Approach A may argue that under Approach A, equipment could meet the definition of investment property only when the asset to which the equipment is fixed is classified as investment property. For example, this could be the case when a telecommunication tower is built on the top of an office building that is classified entirely as an owner-occupied property (refer to Example 3 in the table in Appendix B).

38. However, paragraph 10 of IAS 40 requires an entity to account for a portion or portions of the property separately from other portions of the property if the portion or portions could be sold separately or leased out separately under a finance lease. Some may insist that the equipment or structure in the integrated group would never be analysed separately in accordance with paragraph 10 of IAS 40, because the notion of an ‘integrated group’ is incompatible with the accounting for each asset within the integrated group separately and differently.

39. Nevertheless, we note that paragraph 10 of IAS 40 requires an entity to account for a portion of a single property separately if the specific conditions are met. In this sense, the requirements in paragraph 10 of IAS 40 should apply even more to an asset within a group of assets even though those assets are integrated. In general, no group of assets is more integrated than a single asset is. **Consequently, we think that the equipment or structure fixed to the property could be classified differently from the classification of the property if the conditions in paragraph 10 of IAS 40 are met.** This means that the equipment or structure fixed to the property could be classified as investment property even when the property is classified as ‘owner-occupied property’, and vice versa.

40. Notwithstanding the above, we admit that this approach focuses, to a large extent, on the mobility of the structure or equipment. Some would argue that there is no legitimate ground for requiring different accounting models on the basis of the mobility of the assets (refer to Example 5 in the table in Appendix B) .

Approach B

41. This approach is to add the clarification to the definition of the term 'building' as used in paragraph 5 of current IAS 40. Under this approach, any physical structure or equipment would be classified as investment property if any expected cash flows from rentals or capital appreciation incorporate a land element. We think that expected future cash flows from a structure or equipment generally incorporate a land element when the structure or equipment is fixed to land or a building.

42. This approach focuses on the general characteristic of a building: that a building occupies a space of land and therefore the value of the building significantly depends on its location. In our view, that characteristic distinguishes real-estate-type assets from other types of assets and therefore provides a reasonable dividing line between PP&E under IAS 16 and investment property under IAS 40.

43. Using this approach, a structure or equipment could proceed to the second step of the scope analysis under IAS 40 (ie owner-occupied property analysis) even if a structure or equipment fixed to the property could not be sold separately or leased out separately under a finance lease. In this regard, the classification of a structure or of equipment could be decided independently of the classification of the other assets.

44. However, we note that there would be operational challenges in deciding whether the expected cash flows incorporate a land element. In addition, some may argue that there is no conceptual basis for dividing the classification of an item of PP&E by the existence of a land element in expected future cash flows.

Staff's view

45. We are of the view that Approach A would be more appropriate if the Interpretations Committee decides to propose the amendment to IAS 40. This is primarily because the underlying principle for this approach is partly used in the current requirements in IAS 40.

Assessment against agenda criteria and annual improvement criteria

46. We understand that there was a general consensus in the last Interpretations Committee meeting that amending paragraph 5 of IAS 40 would not meet the Interpretations Committee's agenda criteria or the annual improvement criteria. This is because amending that paragraph would result in a change of the scope of the Standard, which would be, in our view, perceived as a change in principles. We think that such a change in principles should be exposed separately.

47. Consequently, if the Interpretations Committee were to agree to propose to the IASB that it should make amendments to IAS 40, we think that it should also propose that the amendments should be done in a separate project for a limited-scope amendment to IAS 40.

Staff recommendation

48. As discussed above, we are of the view that the Interpretations Committee should propose to the IASB that it should make amendments to IAS 40 in order to accommodate the emerging business models that employ investment property activities with assets that traditionally have not been viewed as property. We also think that the amendments to the definition of the term 'property' should be limited to the context of the scope of IAS 40.

49. In addition, in our view, each approach to amending IAS 40 would be beyond the scope of the annual improvement project and would not represent an interpretation of existing requirements. Consequently, if the Interpretations Committee agrees to recommend to the IASB that it should amend IAS 40, it should also recommend that the amendments be done as a separate narrow-scope amendment. We think that much of the detailed work could be done by the Interpretations Committee on behalf of the IASB.

Questions for the Interpretations Committee

Question 1
Does the Interpretations Committee agree with the staff recommendation that it should recommend the IASB that it should amend IAS 40?

Question 2
If the answer to question 1 is yes, which approach does the Interpretations Committee recommend to the IASB?

Question 3
If the Interpretations Committee prefers neither proposed approach, is there any alternative approach that the staff should explore?

Appendix A—Proposed wordings of alternative approaches to amendments to IAS 40

A1. The text below presents proposed amendments to paragraph 5 of IAS 40 using Approach A and Approach B described in the Agenda Paper (new text is <u>underlined</u>).

Approach A: redefine the definition of 'investment property' using 'integral part' notion which is now partly used in paragraph 50 of IAS 40

5. […]
Investment property is a property (land or a building-or part of a building-or both) held (by the owner or by the lessee under a finance lease), <u>including any property improvements or equipment that forms an integrated group of assets with the property</u>, 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.

<u>Any physical structure or equipment fixed to the property shall be considered as being part of the integrated group of assets when it cannot be removed and used separately without incurring significant cost. The phrase *cannot be removed and used separately without incurring significant cost* contains both of the following distinct concepts:</u>

<u>a. the ability to remove the equipment without incurring significant cost</u>
<u>b. the ability of a different entity to use the equipment at another location without significant diminution in utility or fair value.</u>

Approach B: add clarification to the term 'building' with keeping the current definition of 'investment property' in paragraph 5.

5. […]
Investment property is a 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.

<u>For the purpose of this Standard, the term 'building' includes any physical structure or equipment and from which any expected future cash flows incorporate a land element because the structure or equipment is fixed to land or a building.</u>

Appendix B—Illustrative examples of application of each alternative and current requirements in IAS 40

B1. The following table illustrates how the current definition of the term 'investment property' (IP) in paragraph 5 of IAS 40 and proposed amendments to the definition apply to various types of structures. Please note, however, that **the analysis does not include the assessment of whether significant ancillary services are provided**. That assessment should be performed additionally after concluding that the structures meet the definition of the term 'property' in paragraph 5 of IAS 40.

#	Type of structure	Transaction	Current requirement	Approach 1 (redefine IP)	Approach 2 (define 'building')
1	**Fixtures on a piece of land** • Fixed to a piece of land. • Different physical characteristics from normal office buildings (eg no walls, floors, or a roof)	The owner of the structure lets spaces in the structure to multiple tenants. Examples: • Telecommunica-tion tower fixed to land • Advertising billboard fixed to land • Oil/gas storage tank fixed to land • Power plant • Stadium • Warehouse	*Not clear* • Might not meet the definition of investment property because it lacks characteristics of a general building (paragraph 5). • But the structure might be considered as being an integral part of the piece of land and classified as investment property if the piece of land is classified as investment property (paragraph 50).	*Generally 'investment property'* • It is arguably not a 'building' because it lacks some of characteristics of a general building. • But it could be considered as part of an integrated group of assets, which include the piece of land, because generally the cost incurred to remove the structure is significant. • Accordingly, the structure would generally meet the definition of the term 'property'.	*Generally 'investment property'* • The expected cash flows from the structure incorporate a land element because it is generally fixed to land. Consequently it would be a 'building'.

#	Type of structure	Transaction	Current requirement	Approach 1 (redefine IP)	Approach 2 (define 'building')
		• Pipeline			
2	**Structures buried in the ground** • Buried in a piece of land • Different physical characteristics from normal office buildings (eg, no walls, floors, or a roof)	The owner of the structure lets spaces in the structure to multiple tenants. Examples: • Pipeline • Oil/gas storage tank	*Not clear* • Might not meet the definition of investment property because it lacks characteristics of a general building (paragraph 5). • But the structure might be considered as being an integral part of the piece of land and classified as investment property if the piece of land is classified as investment property (paragraph 50).	*Generally 'investment property'* • It is generally not a 'building' because it lacks some of characteristics of a general building. • But it could be considered as part of an integrated group of assets, which include the piece of land, because generally the cost incurred to remove the structure is significant. • Accordingly, the structure would generally meet the definition of the term 'property'.	*Generally 'investment property'* • The expected cash flows from the structure incorporate a land element because it is generally fixed to land. Consequently it would be a 'building'.
3	**Fixtures on PP&E** • Fixed to an owner-occupied office building • Different physical characteristics from normal office buildings (eg, no walls, floors, or a roof)	The owner of the structure lets spaces in the structure to multiple tenants. Examples: • Telecommunica-tion tower fixed to a building • Advertising billboard fixed to a building	*Generally PP&E* • Might not meet the definition of investment property because it lacks characteristics of a general building (paragraph 5). • Because the building is 'owner-occupied", the structure would not be an integral part of an investment property (paragraph 50).	*Depends* • The structure could be considered as part of an integrated group of assets, which include the piece of land, because generally the cost incurred to remove the structure is significant. • The land and the office building are owner-occupied property. • However, if the structure meets the conditions in paragraph 10, the structure could be classified as investment property separately from the land and building.	*Generally ' investment property'* • The expected cash flows from the structure incorporate a land element because it is fixed to land in the facility, albeit indirectly. Consequently it would be a 'building'.
4	**Fixtures situated in a large facility (eg a port)**	The owner of the facility lets the whole facility to a	*Generally investment property* • The structure would generally be	*Generally investment property* • It is arguably not a 'building'	*Generally investment property* • The expected cash flows from

#	Type of structure	Transaction	Current requirement	Approach 1 (redefine IP)	Approach 2 (define 'building')
	• Fixed to a piece of land. • Different physical characteristics from normal office buildings (eg no walls, floors, or a roof)	tenant <u>Examples:</u> Any structure in • <u>Golf course</u> • <u>Car parks</u> • <u>Winery</u> • <u>Port</u> • <u>Oil refinery</u> • <u>Wind farm</u> • <u>Solar farm</u>	considered as being an integral part of the piece of land and classified as investment property (paragraph 50).	because it lacks some of characteristics of a general building. • But it could be considered as part of an integrated group of assets, which include the piece of land, because generally the cost incurred to remove the structure is significant. • Accordingly, the structure would generally meet the definition of the term 'property'.	the structure incorporate a land element because it is fixed to land. Consequently it would be a 'building'.
5	**Movable structures** • Not fixed to a piece of land • Or cost for relocation is insignificant • Different physical characteristics from normal office buildings (eg, no walls, floors, or a roof)	The owner of the structure lets spaces in the structure to multiple tenants <u>Examples:</u> • <u>Satellite</u> • <u>Cargo ships, cargo planes, automobiles</u> • <u>Machinery in the owner's factory</u>	*Generally PP&E* • Might not meet the definition of investment property because it lacks characteristics of a general building (paragraph 5). • Because the structures are not attached to any property, it would not be an integral part of investment property (paragraph 50).	*Generally PP&E* • It is arguably not a 'building' because it lacks some of characteristics of a general building. • It would not be a part of an integrated group of assets because the structure is not attached to any property or the cost for relocation is insignificant.	*Generally PP&E* • The expected cash flows from the structure do not incorporate a land element because it is not fixed to land. Consequently it would not be a 'building'.

Appendix C—Excerpt from US GAAP

C1. The followings are the excerpts from US GAAP (emphasis added).

FASB Accounting Standards Codification
360-20

15-2 Determining whether a transaction is in substance the sale of real estate requires judgment. <u>However, in making that determination, one shall consider the nature of the entire real estate component being sold (that is, the land plus the property improvements and integral equipment</u>), and not the land only, in relation to the entire transaction. Further, that determination shall not consider whether the operations in which the assets are involved are traditional or nontraditional real estate activities. For example, if a ski resort is sold and the lodge and ski lifts are considered to be affixed to the land (that is, they cannot be removed and used separately without incurring significant cost), then it would appear that the sale is in substance the sale of real estate and that the entire sale transaction would be subject to the provisions of this Subtopic. Transactions involving the sale of underlying land (or the sale of the property improvements or integral equipment subject to a lease of the underlying land) shall not be bifurcated into a real estate component (the sale of the underlying land) and a non-real-estate component (the sale of the lodge and lifts) for purposes of determining profit recognition on the transaction.

15-3 The guidance in this Subtopic applies to the following transactions and activities:

a. All sales of real estate, including real estate with property improvements or integral equipment. <u>The terms *property improvements* and *integral equipment* as they are used in this Subtopic refer to any physical structure or equipment attached to the real estate that cannot be removed and used separately without incurring significant cost</u>. <u>Examples include an office building, a manufacturing facility, a power plant, and a refinery.</u>

b. Sales of property improvements or integral equipment subject to an existing lease of the underlying land should be accounted for in accordance with paragraphs 360-20-40-56 through 40-59.

c. The sale or transfer of an investment in the form of a financial asset that is in substance real estate.

d. The sale of timberlands or farms (that is, land with trees or crops attached to it).

e. Real estate time-sharing transactions (see Topic 978).

15-4 <u>The determination of whether equipment is integral equipment shall be based on the significance of the cost to remove the equipment from its existing location (which would include the cost of repairing damage done to the existing location as a result of the removal), combined with the decrease in the fair value of the equipment as a result of that removal.</u>

15-5 <u>At a minimum, the decrease in the fair value of the equipment as a result of its removal is the estimated cost to ship and reinstall the equipment at a new site.</u> If there are multiple potential users of the leased equipment, the estimate of the fair value of the equipment as well as the costs to ship and install the equipment shall assume that the equipment will be sold to the potential user that would result in the greatest net cash proceeds to the seller (current lessor).

15-6 The nature of the equipment, and the likely use of the equipment by other potential users, shall be considered in determining whether any additional diminution in fair value exists beyond that associated with costs to ship and install the equipment.

15-7 When the combined total of both the cost to remove plus the decrease in fair value (for leasing transactions, the information used to estimate those costs and the decrease in fair value shall be as of lease inception) exceeds 10 percent of the fair value of the equipment (installed) (for leasing transactions, at lease inception), the equipment is integral equipment.

15-8 The phrase *cannot be removed and used separately without incurring significant cost* contains both of the following distinct concepts:

a. The ability to remove the equipment without incurring significant cost
b. The ability of a different entity to use the equipment at another location without significant diminution in utility or fair value.

15-9 The guidance in paragraphs 360-20-40-50 through 40-55 applies only to individual units in a condominium project or time-sharing interests being sold separately.

15-10 The guidance in this Subtopic does not apply to the following transactions and activities:

a. The sale of only property improvements or integral equipment without a concurrent (or contemplated) sale of the underlying land, except for sales of property improvements or integral equipment with the concurrent lease (whether explicit or implicit in the transaction) of the underlying land to the buyer
b. The sale of the stock or net assets of a subsidiary or a segment of a business if the assets of that subsidiary or that segment, as applicable, contain real estate, unless the transaction is, in substance, the sale of real estate
c. Exchanges of real estate for other real estate (see Topic 845)
d. The sale of securities that are accounted for in accordance with Topic 320 (Sales of such securities are addressed in Topic 860.)
e. Retail land sales
f. Natural assets such as those that have been extracted from the land (for example, oil, gas, coal, and gold). Mineral interests in properties include fee ownership or a lease, concession, or other interest representing the right to extract oil or gas subject to such terms as may be imposed by the conveyance of that interest. Mineral interests in properties also include royalty interests, production payments payable in oil or gas, and other nonoperating mineral interests in properties operated by others. See Topic 932.