IPSAS 16 - INVESTMENT PROPERTY
as adopted by the Maltese Government

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CONTENTS

International Public Sector Accounting Standard 16, *Investment Property as adopted by the Maltese Government*, is set out in paragraphs 1–103A. All the paragraphs have equal authority. IPSAS 16[1] should be read in the context of its objective IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

[1]References to IPSAS 16 or any other IPSAS shall be taken as meaning 'as adopted by the Maltese Government'.

Objective

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

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for investment property.**

3. **This Standard applies to all Central Government entities.**

4. [Not Used]

5. This Standard applies to accounting for investment property, including (a) the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease, and to (b) 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 IPSAS 13, *Leases* including:

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

   (b) Recognition of lease revenue from investment property (see also IPSAS 9, *Revenue from Exchange Transactions*;

   (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.

6. This Standard does not apply to:

   (a) Biological assets related to agricultural activity (see IPSAS 27, *Agriculture*); and

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

Definitions

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

<u>Carrying amount</u> (for the purpose of this Standard) is the amount at which an asset is recognised in the statement of financial position.

<u>Central Government Entities</u> means Government Ministries and Departments.

<u>Cost</u> 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.

<u>Investment property</u> is property (land or a building – or part of a building – or both) held 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 operations.**

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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are published separately.

Property Interest Held by a Lessee under an Operating Lease

8. **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, (a) the property would otherwise meet the definition of an investment property, and (b) the lessee uses the fair value model set out in paragraphs 42–64 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 85–89A.**

Investment Property

9. There are a number of circumstances in which Central Government entities may hold property to earn rental and for capital appreciation. For example, an entity managing Government's property portfolio on a commercial basis. In this case, the property held by the entity, other than property held for resale in the ordinary course of operations, meets the definition of an investment property. Other Central Government entities may also hold property for rentals or capital appreciation, and use the cash generated to finance their other (service delivery) activities. For example, an entity may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property would also meet the definition of investment property.

10. Investment property is held to earn rentals or for capital appreciation, or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by Central Government entities, including owner- occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, Central Government entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services, and the cash flows are attributable not only to the building, but also to other assets used in the production or supply process. IPSAS 17, *Property, Plant and Equipment*, applies to owner-occupied property.

11. [Not Used]

12. 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 operations. For example, land held for capital appreciation that may be sold at a beneficial time in the future.

(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, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, 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 on a commercial basis. For example, a Department may own a building that it leases on a commercial basis to external parties.

(d) A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

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

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

(a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see IPSAS 12, *Inventories*). For example, the Housing Authority may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory.

(b) Property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see IPSAS 11, *Construction Contracts*).

(c) Owner-occupied property (see IPSAS 17), 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, and owner-occupied property awaiting disposal.

(d) [Deleted]

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

(f) Property held to provide a social service and which also generates cash inflows. For example, the Housing Authority may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with IPSAS 17.

(g) Property held for strategic purposes which would be accounted for in accordance with IPSAS 17.

14. Central Government entities may hold property 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. However, where a Central Government entity does hold property to earn rental or for capital appreciation, this Standard is applicable. In some cases, Central Government entities hold some property that comprises (a) a portion that is held to earn rentals or for capital appreciation rather than to provide services, and (b) another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a hospital may own a building, part of which is used for administrative purposes, and part of which is leased out on a commercial basis. 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.

15. 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 a Government Department (a) owns an office building that is held exclusively for rental purposes and rented on a commercial basis, and (b) also provides security and maintenance services to the lessees who occupy the building.

16. [Not Used]

17. [Not Used]

18. Judgment is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of investment property, and with the related guidance in paragraphs 9–15. Paragraph 86(c) requires an entity to disclose these criteria when classification is difficult.

19. In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in consolidated financial statements, because the property is owner-occupied from the perspective of the economic entity. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 7. Therefore, the lessor treats the property as investment property in its individual financial statements. In the local context buildings are leased out by one Government Entity to other Government entities. In the financial statements of the Entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the Central Government, the property would be accounted for as Property, Plant and Equipment in accordance with IPSAS 17.

Recognition

20. **Investment property shall be recognised as an asset when, and only when:**

    (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.**

21. In determining whether an item satisfies the first criterion for recognition, an entity needs to assess the degree of certainty attaching to the flow of future economic benefits or service potential on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits or service potential will flow to the entity necessitates an assurance that the entity will receive the rewards attaching to the asset, and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the entity. Before this occurs, the transaction to acquire the asset can usually be cancelled without significant penalty and, therefore, the asset is not recognised.

22. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. As specified in paragraph 27 of this Standard, under certain circumstances an investment property may be acquired at no cost or for a nominal cost. In such cases, cost is the investment property's fair value as at the date of acquisition.

23. 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.

24. Under the recognition principle in paragraph 20, 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 surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs 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.

25. Parts of investment property 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

26. **Investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).**

27. **Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.**

28. 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.

29. [Deleted]

30. The cost of 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.

31. If payment for 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.

32. An investment property may be acquired through a non-exchange transaction, such as, for example, by the exercise of powers of sequestration. In this circumstance, the cost of the property is its fair value as at the date it is acquired.

33. Where an entity initially recognises its investment property at fair value in accordance with paragraph 27, the fair value is the cost of the property. The entity shall adopt, subsequent to initial recognition, the fair value model (paragraphs 42–64).

34. **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 28 of IPSAS 13, i.e., 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.**

35. 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 42–61. That guidance is also relevant to the determination of fair value when that value is used as cost for initial recognition purposes.

36. 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.

37. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is 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 or service potential of the asset received differs from the configuration of the cash flows or service potential 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, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

38. 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

39. **With the exception noted in paragraph 62, an entity shall use as its accounting policy the fair value model in paragraphs 42–64, and shall apply that policy to all of its investment property.**

40. [Not Used]

41. An entity may determine the fair value of investment property on the basis of 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.

Fair Value Model

42. **After initial recognition, a Central Government entity shall measure all of its investment property at fair value, except in the cases described in paragraph 62.**

43. [Not Used]

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

45. 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.

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

47. **The fair value of investment property shall reflect market conditions at the reporting date.**

48. 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.

49. The fair value of investment property reflects, among other things, rental revenue from current leases and other assumptions that market participants would use when pricing investment property under current market 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 (e.g. periodic payments such as contingent rents).

50. Paragraph 34 specifies the basis for initial recognition of the cost of an interest in a leased property. Paragraph 42 requires the interest in the leased property to be remeasured 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 28 of IPSAS 13. Thus, remeasuring a leased asset from cost in accordance with paragraph 34 to fair value in accordance with paragraph 42 should not give rise to any initial gain or loss, unless fair value is measured at different times.

51. A fair value measurement contemplates an orderly transaction to sell the asset or transfer the liability in its principal market. The term "principal market", often referred as 'active market', is defined as the market with the greatest volume and level of activity for the asset or liability. An active market is a market in which all of the following conditions exist:

(a) The items traded in the market are homogenous;

(b) Willing buyers and sellers can normally be found at any time; and

(c) Prices are available to the public.

52. [Not Used]

53. [Not Used]

54. 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.

55. In the absence of current prices in an active market of the kind described in paragraph 54, 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.

56. 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.

57. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes an 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 62).

58. Fair value differs from value in use, as defined in IPSAS 21, *Impairment of Cash Generating Assets* and IPSAS 26, *Impairment of Cash Generating Assets.* Fair value is a market based measurement. 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 an active market:

(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,

59. 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 elevators 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 revenue 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 revenue, 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.

60. 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.

61. 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 IPSAS 19, *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

62**.** **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. The following exceptions may be acceptable following authorisation by the pertinent government body. 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 IPSAS 17. The residual value of the investment property shall be assumed to be zero. The entity shall apply IPSAS 17 until disposal of the investment property.

62A. 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 62, the property shall be accounted for using the cost model in accordance with IPSAS 17.

62B. 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.

63. In the exceptional cases when an entity is compelled, for the reason given in paragraph 62, to measure an investment property using the cost model in accordance with IPSAS 17, 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.

64. **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 operations) even if comparable market transactions become less frequent or market prices become less readily available.**

Cost Model

65. [Not Used]

Transfers

66. **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 (on a commercial basis) to another party, for a transfer from inventories to investment property.**

(e) [Deleted]

67. A government's use of property may change over time. For example, a government may decide to occupy a building currently used as an investment property, or to convert a building currently used for administrative purposes into building leased to the private sector. In the former case, the building would be accounted for as an investment property until commencement of occupation. In the latter case, the building would be accounted for as Property, Plant and Equipment until its occupation ceased and it is reclassified as an investment property.

68. Paragraph 66(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.

69. A government property department may regularly review its buildings to determine whether they are meeting its requirements, and as part of that process may identify, and hold, certain buildings for sale. In this situation, the building may be considered inventory. However, if the government decided to hold the building for its ability to generate rent revenue and its capital appreciation potential, it would be reclassified as an investment property on commencement of any subsequent operating lease.

70. Paragraphs 71–76 apply to recognition and measurement issues that arise when an entity uses the fair value model for investment property.

71. **For a transfer from investment property carried at fair value to owner- occupied property or inventories, the property's cost for subsequent accounting in accordance with IPSAS 17 or IPSAS 12, shall be its fair value at the date of change in use.**

72. **If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply IPSAS 17 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 IPSAS 17, and its fair value in the same way as a revaluation in accordance with IPSAS 17.**

73. 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 IPSAS 17, and its fair value in the same way as a revaluation in accordance with IPSAS 17. In other words:

(a) Any resulting decrease in the carrying amount of the property is recognised in surplus or deficit. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that revaluation surplus.

(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 surplus or deficit. The amount recognised in surplus or deficit does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) if no impairment loss had been recognised.

(ii) Any remaining part of the increase is credited directly to net assets/equity in revaluation surplus. On subsequent disposal of the investment property, the revaluation surplus included in net assets/equity may be transferred to accumulated surpluses or deficits. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.

74. **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 surplus or deficit.**

75. 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.

76. **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 surplus or deficit.**

Disposals

77. **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 or service potential are expected from its disposal.**

78. 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 IPSAS 9 for recognising revenue from the sale of goods. IPSAS 13 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

79. If, in accordance with the recognition principle in paragraph 20, 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.

80. **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 surplus or deficit (unless IPSAS 13 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.**

81. 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 IPSAS 9, using the effective interest method.

82. An entity applies IPSAS 19 or other standards, as appropriate, to any liabilities that it retains after disposal of an investment property.

83. **Compensation from third parties for investment property that was impaired, lost, or given up shall be recognised in surplus or deficit when the compensation becomes receivable.**

84. 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 IPSAS 21 or IPSAS 26, as appropriate;

(b) Retirements or disposals of investment property are recognised in accordance with paragraphs 77–82 of this Standard;

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

(d) The cost of assets restored, purchased, or constructed as replacements is determined in accordance with paragraphs 26–38 of this Standard.

Disclosure

Fair Value Model

85. The disclosures below apply in addition to those in IPSAS 13. In accordance with IPSAS 13, 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 lease or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

86. **An entity shall disclose:**

(a) **The accounting policy for investment properties;**

(b) **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 18), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;**

(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 surplus or deficit for:**

(i) **Rental revenue from investment property;**

(ii) **Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period.**

(g) **The existence and amounts of restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal; and**

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

87. **In addition to the disclosures required by paragraph 86, an entity 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 entity combinations;**

(c) **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.**

88. **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 59, 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.**

89. **In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the cost model in IPSAS 17, the reconciliation required by paragraph 87 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. The entity shall disclose the reconciliation of the carrying amount of that 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 recognized as an asset;**

(b) **Additions resulting from acquisitions through entity combinations;**

(c) **Disposals;**

(d) **Depreciation;**

(e) **The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(f) **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;**

(g) **Transfers to and from inventories and owner-occupied property; and**

(h) **Other changes**

89A. **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.**

90. [Not used]

Transitional Provisions

91-100. [Not used]

Effective Date

101-103. [Not used]

103A. Central Government entities shall apply this Standard for annual financial statements covering periods beginning or after DD/MM/YY. Earlier application is not permitted.

Appendix 1
Comparison with IPSAS 16

IPSAS 16 Investment Properties as adopted by the Maltese Government is drawn from IPSAS 16 Investment Properties.

The following are the significant differences between IPSAS 16 as adopted by the Maltese Government and IPSAS 16:

Section/s	IPSAS 16 (as adopted)	IPSAS 16
3	Applicability of Standard to Central Government entities.	Applicability of Standard to all public sector entities other than Government Business Enterprises.
39	With the exception noted in paragraph 62, an entity shall use as its accounting policy the fair value model in paragraphs 42–64, and shall apply that policy to all of its investment property.	With the exception noted in paragraph 43, an entity shall choose as its accounting policy either the fair value model in paragraphs 42-64 or the cost model in paragraph 65, and shall apply that policy to all of its investment property.
65	[Not used]	After initial recognition, an entity that chooses the cost model shall measure all of its investment property in accordance with IPSAS 17's requirements for that model, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.
86 (a)	The application of the fair model.	Whether it applies the fair value or the cost model
89	The entity shall also disclose the reconciliation of the carrying amount of that investment property at the beginning and end of the period where, in the exceptional cases referred to in paragraph 62, an entity measures investment property using the cost model in IPSAS 17.	Cost model reconciliation disclosure requirements are listed on paragraph 90 (d) (i) to (viii).
89A	In the exceptional cases referred to in paragraph 62, where an entity measures investment property using the cost model in IPSAS 17, there shall be additional disclosures.	Additional disclosures are listed on paragraph 89 (a) to (d) (iii).

Appendix 2
Comparison with Original Draft

The following are the significant amendments from the original draft:

	Section/s	***Original* draft IPSAS 16 (as adopted)**	***Revised* draft IPSAS 16 (as adopted)**
A	13 (a)	Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see IPSAS 12, *Inventories*).	Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see IPSAS 12, *Inventories*). For example, the Housing Authority may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory. *[Example re-included, following its deletion on the original draft]*.
B	39	An entity shall use as its accounting policy the fair value model in paragraphs 42–64, and shall apply that policy to all of its investment property.	With the exception noted in paragraph 62, an entity shall use as its accounting policy the fair value model in paragraphs 42–64, and shall apply that policy to all of its investment property. *[Refer to paragraph 62 below]*.
C	41	An entity is encouraged, but not required, to determine the fair value of investment property on the basis of 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.	An entity may determine the fair value of investment property on the basis of 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. *[Entity may now choose not to use an independent valuer]*.
D	48	-	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. *[Re-included reference to 'fair value']*.
E	50	Paragraph 34 specifies the basis for initial recognition of the cost of an interest in a leased property. Paragraph 42 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.	Paragraph 34 specifies the basis for initial recognition of the cost of an interest in a leased property. Paragraph 42 requires the interest in the leased property to be remeasured 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

		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 28 of IPSAS 13. Thus, remeasuring a leased asset from cost in accordance with paragraph 34 to fair value in accordance with paragraph 42 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.	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 28 of IPSAS 13. Thus, remeasuring a leased asset from cost in accordance with paragraph 34 to fair value in accordance with paragraph 42 should not give rise to any initial gain or loss, unless fair value is measured at different times. *[Deleted 'if necessary' and 'This could occur when an election to apply the fair value model is made after initial recognition' as they are not applicable].*
F	51	-	A fair value measurement contemplates an orderly transaction to sell the asset or transfer the liability in its principal market. The term "principal market", often referred as 'active market', is defined as the market with the greatest volume and level of activity for the asset or liability. An active market is a market in which all of the following conditions exist: (a) The items traded in the market are homogenous; (b) Willing buyers and sellers can normally be found at any time; and (c) Prices are available to the public. *[Re-included reference to 'fair value' definition].*

G	58	-	Fair value differs from value in use, as defined in IPSAS 21, *Impairment of Cash Generating Assets* and IPSAS 26, *Impairment of Cash Generating Assets.* Fair value is a market based measurement. 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 an active market: (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. *[Re-included reference to 'fair value' definition].*
H	62	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	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. The following exceptions may be acceptable following authorisation by the pertinent government body. 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

		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 IPSAS 17. The residual value of the investment property shall be assumed to be zero. The entity shall apply IPSAS 17 until disposal of the investment property.	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 IPSAS 17. The residual value of the investment property shall be assumed to be zero. The entity shall apply IPSAS 17 until disposal of the investment property. *[Introduced exception to use of fair value - in exceptional circumstances where the fair value cannot be determined, and following authorisation by the pertinent government body]*
I	86(a)	An entity shall disclose: (a) The application of the fair model;	An entity shall disclose: (a) <u>The accounting policy for investment properties;</u> *[Disclosure requirement now based on option available in paragraph 62 above]*.