STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	**Annual Improvements—2011-2013 cycle**
Paper topic	IFRS 3 *Business Combinations*—Definition of a business

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Introduction

1. In May 2011, the IFRS Interpretations Committee (the Committee) received a request seeking clarification on whether an asset with relatively simple processes associated with it meets the definition of a business in accordance with IFRS 3 *Business Combinations*. More specifically, the question is whether the acquisition of a single investment property, with lease agreements with multiple tenants over varying periods and with associated processes, such as cleaning, maintenance and administrative services such as rent collection, constitutes a business as defined in IFRS 3.
2. The Committee discussed the issue in their meeting in September 2011, after which the September 2011 IFRIC *Update* reported that:

> The Committee observed that IFRS 3 and IAS 40 are not mutually exclusive. An entity acquiring an investment property should consider whether it meets the definition of a business as defined in Appendix A of IFRS 3. The Committee noted that the guidance in paragraphs 11-14 of IAS 40 on ancillary services is intended to delineate an investment property from owner occupied property, and not to delineate a business combination from the acquisition of a single asset. Investment property acquired in a business combination is recognised on the acquisition date at fair value in accordance with IFRS 3. An investment property

> acquired outside a business combination is recognised at cost in accordance with IAS 40.
>
> To avoid confusion on the interrelation of IFRS 3 and IAS 40, the Committee directed the staff to analyse whether a clarification can be made to IAS 40 through the annual improvements process.
>
> The Committee also observed that the difficulty in determining whether an acquisition meets the definition of a business in Appendix A of IFRS 3 is not limited to the acquisition of investment property. The Committee noted that this broader issue goes beyond the scope of its activities and should be addressed by the Board as part of its post-implementation review on IFRS 3.
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> However, the Committee considered it to be useful for the Board's post-implementation review if it contributes to that review its experience and the results from the discussions on this issue. Consequently, the Committee directed the staff to continue their discussions with the staff of the US accounting standard setter, the Financial Accounting Standards Board, and to continue their outreach to interested parties from other industry sectors with the aim of providing the Board with relevant information for its post-implementation review.

3. This agenda paper addresses the first issue, ie whether the interrelationship of IFRS 3 and IAS 40 can be clarified through the annual improvements process. We will present the results on the second issue from our continued discussions with the staff of the US accounting standard-setter, the Financial Accounting Standards Board, and from our continuing outreach to interested parties from other industry sectors, with the aim of providing the Board with relevant information for its post-implementation review at a future meeting.

Staff analysis

Interrelationship of IFRS 3 and IAS 40 and ancillary services

4. For the analysis on the interrelationship of IFRS 3 and IAS 40, and to explain the non-applicability of the guidance on ancillary services in IAS 40 for delineating the scope of both standards, we make reference to paragraphs 11-23 of agenda paper 4 presented at the September 2011 Committee Meeting[1] and the September 2011 IFRIC *Update*—IFRS 3 *Business Combinations—definition of a business* (see paragraph 2 above).
5. For ease of reference, our analysis presented at the September 2011 Committee meeting is reproduced Appendix C to this paper.
6. We think that the most appropriate approach to clarify the interrelationship between IFRS 3 and IAS 40, if a single investment property with insignificant ancillary services as specified in paragraph 11 of IAS 40 is acquired, is to highlight that the accounting for such transactions requires entities to exercise judgement twice:
   (a) to determine whether a property qualifies as investment property or owner-occupied property; and
   (b) to determine whether the acquisition of an investment property is the acquisition of a single asset or a business combination within the scope of IFRS 3.
7. The judgement that is needed to determine whether a property qualifies as investment property or owner-occupied property is explicitly stated in paragraph 14 of IAS 40 and the guidance supporting that judgement is found in paragraph 7-15 of IAS 40.
8. We propose therefore that the judgement needed to determine whether the acquisition of an investment property is the acquisition of a single asset or a business combination in the scope of IFRS 3 should be contrasted by adding a paragraph 14A after paragraph 14 of IAS 40. This paragraph should clarify that:
   (a) it is a second instance where judgement is needed;

[1] http://www.ifrs.org/NR/rdonlyres/B2EB0FC1-3F23-447F-BD8D-8DDA2CA95F7E/0/041109AP04AIPIFRS3Definitionofabusiness.pdf

(b) both judgements are determinations that are independent of each other; and

(c) the guidance supporting the judgement to determine whether the acquisition of an investment property is a business combination is not included in IAS 40 but is instead in IFRS 3.

9. In addition, we think that the divergent views on the interrelationship between IFRS 3 and IAS 40, if a single investment property with insignificant ancillary services as specified in paragraph 11 of IAS 40 is acquired, partly result from the fact that IAS 40 does not state obviously which issue is addressed by paragraphs 6-15 of IAS 40. Consequently, we propose to add a heading before paragraph 6 of IAS 40 that makes reference to the classification of a property either as investment property or as owner-occupied property.

10. We think that such an amendment clarifies that IFRS 3 and IAS 40 are not mutually exclusive if a single investment property with insignificant ancillary services as specified in paragraph 11 of IAS 40 is acquired.

11. The proposed amendment is included in Appendix A to this paper.

Transition

12. The accounting for some past transactions might be questioned if the proposed amendment is applied retrospectively. The question of prospective or retrospective application therefore needs to be considered.

13. If a new standard, or an amendment to a standard, changes the accounting policy of an entity upon initial application, it shall apply the change retrospectively, if the new standard or the amendment to a standard does not include a specific transitional provision (see paragraph 19(b) of IAS 8).

14. As noted above, applying the proposed amendments to IAS 40 as set out in Appendix A to this agenda paper retrospectively may result in an entity applying IFRS 3 to transactions that have been accounted for in previous periods as the acquisition of a single asset recognised at cost at acquisition date. Accordingly, the acquisition-date fair value of several items recognised in accordance with IFRS 3 may not have been determined in previous periods.

15. In this context, we are not so much concerned with the fair value of the investment properties itself at the acquisition date. This is because, at the very

least, the fair value of acquired investment property at the next balance sheet date must have been determined, either for applying the fair value model for subsequent measurement of investment property or for the disclosure required by paragraph 79(e) of IAS 40.

16. Instead, we have in mind assets and liabilities that are only recognised under IFRS 3, eg contingent liabilities or indemnification assets.
17. The acquisition-date fair value of contingent consideration may be another example of a fair value that may have not been determined in previous periods because of a different accounting policy for contingent consideration for a single asset.
18. To avoid the use of hindsight in determining the acquisition-date fair value of the identifiable assets acquired, and of the liabilities assumed as part of the business combination transaction, we think that the proposed amendment to IAS 40 should be applied prospectively.

Annual improvements criteria assessment

19. In planning whether an issue should be addressed by amending IFRSs within the annual improvements project, the IASB assesses the issue against certain criteria. All the criteria (a)-(d) must be met to qualify for inclusion in annual improvements. We have assessed the proposed amendment against the enhanced annual improvements criteria, which are reproduced in full below:

Annual improvements criteria	**Staff assessment of the proposed amendment**
(a) The proposed amendment has one or both of the following characteristics: (i) clarifying—the proposed amendment would improve IFRSs by: • clarifying unclear wording in existing IFRSs, or • providing guidance where an absence of guidance is causing concern. A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing	(a) Yes. The proposed amendment clarifies the interrelationship between IFRS 3 and IAS 40. The clarifying amendment maintains consistency with the existing principles in IFRS 3 and IAS 40 for the accounting for business combinations and investment property.

principle. (ii) correcting—the proposed amendment would improve IFRSs by: • resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirements should be applied, or • addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs. A correcting amendment does not propose a new principle or a change to an existing principle, but may create an exception from an existing principle.	
(b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.	(b) Yes. We believe that the proposed amendment is well defined and is sufficiently narrow in scope such that the consequences of the proposed change have been considered—it contributes to consistent accounting for the acquisition of investment property.
(c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.	(c) Yes. We think that the IASB will reach a conclusion on this issue on a timely basis, because it aligns with the existing principles in IFRS 3 and IAS 40 for the accounting for business combinations and investment property.
(d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.	(d) Yes. We expect the post-implementation review on business combinations to start in Q2 of 2012 and to last about 12 months before standard-setting action will be considered. It cannot be predicted whether this standard-setting action will include a clarification on the interrelationship of IFRS 3 and IAS 40.

Staff recommendation

20. Considering the results from the Committee's discussion at its September 2011 meeting (see paragraph 2 above), our analysis (see paragraphs 6-18 above) and our assessment under the existing annual improvements criteria (see paragraph 19 above), we think that the Committee should recommend to the Board that the amendment proposed in Appendix A of this paper should be included in the **2011-2013 *annual improvements*** cycle.

Questions to the IFRS Interpretations Committee

Questions—proposed amendments to IAS 40
1. Does the Committee agree to recommend to the Board that it should amend IAS 40 to clarify the interrelationship of IFRS 3 and IAS 40 through the 2011-2013 *annual improvements* cycle?
2. Does the Committee agree to recommend to the Board that the amendment should be applied prospectively?
3. Does the Committee agree to recommend to the Board that it should adopt the text of the proposed amendment as shown in Appendix A? If not, what changes should be made?

Appendix A—Proposed wording for Annual Improvements

The proposed amendment to IAS 40 is presented below.

Amendment to IAS 40 *Investment Property*

Before paragraph 6, a heading is added. Paragraphs 14A, 84A and 85D are added. Paragraphs 6 and 14 have been included for ease of reference but are not proposed for amendment.

Classification of property as investment property or owner-occupied property

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

[…]

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

14A Judgement is also needed to determine whether the acquisition of an investment property is the acquisition of a single asset or a business combination within the scope of IFRS 3 *Business Combinations*. Reference should be made to IFRS 3 to determine whether it is a business combination. The discussion in paragraphs 7-15 of this standard relates to whether or not the property is an owner-occupied property or an investment property and not to whether or not the acquisition of the property is a business combination as defined in IFRS 3. Determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 and an investment property as defined in this standard requires the separate application of both standards independently of each other.

Transitional provisions

[...]

Business Combinations

84A ***Improvements to IFRSs*** **issued in [date] added a heading before paragraph 6 and paragraph 14A. An entity shall apply this amendment prospectively for acquisitions of investment property from the beginning of the first period for which it adopts this amendment. Consequently, amounts recognised for acquisitions of investment property in prior periods shall not be adjusted.**

Effective date

[...]

85D *Improvements to IFRSs* issued in [date] added a heading before paragraph 6 and paragraphs 14A and 84A. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Basis for Conclusions on proposed amendment to IAS 40

Investment Property

This Basis for Conclusions accompanies, but is not part of, the proposed amendment

Classification of property as investment property or owner-occupied property

Business combinations

BC1 The IFRS Interpretations Committee (Committee) reported to the Board that practice differed in delineating the scope of IFRS 3 *Business Combinations* and IAS 40 *Investment Property*:

(a) Some considered both standards as mutually exclusive if a single investment property with associated insignificant ancillary services as specified in paragraph 11 of IAS 40 is acquired. They view the property, together with any associated insignificant ancillary services, as being a single 'unit of account' and they consider this unit of account to be one asset, called 'investment property'. Consequently, in their view the acquirer of a property with multiple tenants who adopts associated processes such as security and maintenance acquires one asset, instead of inputs and processes applied to those inputs that have the ability to create outputs, ie a business as specified in IFRS 3 *Business Combinations*.

(b) Others, in contrast, did not view IFRS 3 and IAS 40 as being mutually exclusive if a single investment property with associated insignificant ancillary services as specified in paragraph 11 of IAS 40 is acquired, and nor did they view the definitions of a business as defined in Appendix A of IFRS 3 and an investment property as defined in paragraph 5 of IAS 40 as being interrelated. They think that an entity acquiring an investment property has to determine whether it meets both definitions.

BC2 The Board considered the guidance in IFRS 3 and IAS 40 for the acquisition of a single investment property with associated insignificant ancillary services as specified in paragraph 11 of IAS 40. The Board noted that paragraphs 8-14 of IAS 40 have been developed to differentiate investment property from owner-occupied property, or to delineate the scope of IAS 40 to distinguish it from the scope of IAS 16 *Property, Plant and Equipment*. In addition, neither IFRS 3 nor IAS 40 contains a limitation in its scope that restricts its application when the other standard applies, ie there is nothing in the scope of each standard to suggest that they are mutually exclusive. The Board also noted that the wording of IAS 40 is not sufficiently clear about the interrelationship of the two standards.

BC3 The Board agrees with the proponents of the view presented in paragraph BC1(b) that IFRS 3 and IAS 40 are not mutually exclusive. The Board proposes to amend IAS 40 to state explicitly that judgement is also needed to determine whether the acquisition of an investment property is the acquisition of a single asset or a business combination in the scope of IFRS 3 and this judgement is not based on paragraphs 7-15 of IAS 40 but the guidance in IFRS 3. Only the judgement needed to distinguish an investment property from an owner-occupied property is based on these paragraphs.

BC4 Consequently, the Board proposes to clarify the interrelationship of the two standards by adding a heading before paragraph 6 and paragraph 14A to IAS 40.

Effective date and transition

BC5 The Board proposes to add a heading before paragraph 6 and paragraphs 14A, 84A and 85D of IAS 40 to clarify the interrelationship between IFRS 3 and IAS 40. The Board considered the transitional provisions and effective date of the amendment to IAS 40. The Board noted that applying IFRS 3 to transactions that have previously been accounted for as the acquisition of a single asset might involve the use of hindsight in determining the acquisition-date fair values of the identifiable assets acquired and of the liabilities assumed as part of the business combination transaction. Consequently, the Board proposes that an entity would apply the proposed amendments to IAS 40 prospectively for annual periods beginning on or after [the effective date].

Appendix B—relevant IFRS literature

Extracts from IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Applying changes in accounting policies

19 **Subject to paragraph 23:**

(a) an entity shall account for a change in accounting policy resulting from the initial application of an IFRS in accordance with the specific transitional provisions, if any, in that IFRS; and

(b) when an entity changes an accounting policy upon initial application of an IFRS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.

Extracts from IAS 40 *Investment Property*

Definitions

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

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

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

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. (See IFRS 13** ***Fair Value Measurement*****.)**

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

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

(b) sale in the ordinary course of business.

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

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

7 Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This

distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. IAS 16 *Property, Plant and Equipment* applies to owner-occupied property.

8 The following are examples of investment property:

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.
(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)
(c) a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases.
(d) a building that is vacant but is held to be leased out under one or more operating leases.
(e) property that is being constructed or developed for future use as investment property.

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

(a) property intended for sale in the ordinary course of business or in the process of construction or development for such sale (see IAS 2 *Inventories*), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.
(b) property being constructed or developed on behalf of third parties (see IAS 11 *Construction Contracts*).
(c) owner-occupied property (see IAS 16), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.
(d) [deleted]
(e) property that is leased to another entity under a finance lease.

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

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

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

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

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

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

Transitional provisions

Fair value model

80 An entity that has previously applied IAS 40 (2000) and elects for the first time to classify and account for some or all eligible property interests held under operating leases as investment property shall recognise the effect of that election as an adjustment to the opening balance of retained earnings for the period in which the election is first made. In addition:

(a) if the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of those property interests in earlier periods (measured on a basis that satisfies the definition of fair value in IFRS 13), the entity is encouraged, but not required:

(i) to adjust the opening balance of retained earnings for the earliest period presented for which such fair value was disclosed publicly; and

(ii) to restate comparative information for those periods; and

(b) if the entity has not previously disclosed publicly the information described in (a), it shall not restate comparative information and shall disclose that fact.

81 This Standard requires a treatment different from that required by IAS 8. IAS 8 requires comparative information to be restated unless such restatement is impracticable.

82 When an entity first applies this Standard, the adjustment to the opening balance of retained earnings includes the reclassification of any amount held in revaluation surplus for investment property.

Cost model

83 IAS 8 applies to any change in accounting policies that is made when an entity first applies this Standard and chooses to use the cost model. The effect of the change in accounting policies includes the reclassification of any amount held in revaluation surplus for investment property.

84 The requirements of paragraphs 27–29 regarding the initial measurement of an investment property acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.

Effective date

85 An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.

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

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

85C IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 5, amended paragraphs 26, 29, 32, 40, 48, 53, 53B, 78–80 and 85B and deleted paragraphs 36–39, 42–47, 49, 51 and 75(d). An entity shall apply those amendments when it applies IFRS 13.

Appendix C—Extract from agenda paper 4 presented at the September 2011 Committee meeting

Paragraphs 11-23 are an extract from agenda paper 4 presented by us at the September 2011 Committee meeting:

Interrelation of IFRS 3 and IAS 40

11. Neither IFRS 3 nor IAS 40 contains a limitation in its scope that restricts its application when the other standard applies, ie there is nothing in the scope of each standard to suggest that they are mutually exclusive.
12. Consequently, we think that both standards apply if an investment property is acquired as part of a business as defined in IFRS 3. Preparers of IFRS financial statements have to assess whether the acquisition meets the definition of a business combination as set out in Appendix A and paragraphs B5 – B12 of IFRS 3, as well as whether the acquired asset meets the definition of an investment property as set out in paragraph 5 of IAS 40.
13. This conclusion is supported by paragraphs 76(b) and 79(d)(ii) of IAS 40 that require a reconciliation of the carrying amount of investment property at the beginning and end of the period to show additions resulting from acquisitions through business combinations separately from other additions that include other acquisitions.
14. Applying both standards means that the investment property is recognised on the acquisition date at fair value (see paragraph 18 of IFRS 3) instead of at cost (see paragraph 20 of IAS 40), with the transaction cost being expensed (see paragraph 53 of IFRS 3) and not being included in cost (see paragraph 20 of IAS 40).
15. In addition, when the investment property is acquired as part of the business combination, the initial recognition exceptions for deferred tax assets and liabilities in paragraphs 15 and 24 of IAS 12 *Income Taxes* do not apply to deferred tax assets and liabilities related to that investment property (see paragraphs 15(b)(i) and 24(a) of IAS 12).

16. Apart from the initial measurement of the investment property, all the provisions of IAS 40 apply to an investment property acquired as part of a business combination, especially the provisions in IAS 40 on the subsequent accounting (see paragraph 15 of IFRS 3).
17. Therefore, we think that an entity acquiring a rented property has to determine whether it meets the definition of both a business as defined in Appendix A of IFRS 3 and an investment property as defined in paragraph 5 of IAS 40.

Ancillary services

18. Paragraph 11 of IAS 40 describes security and maintenance services provided by the owner of an office building to the lessees who occupy the building as typical examples of ancillary services that are so insignificant that they are ignored in determining whether the property is classified as an investment property.
19. We have been informed by some national standard-setter that based on this guidance several practitioners think that the property together with associated insignificant ancillary services is one single ‘unit of account’ and that this unit of account is considered one asset, called investment property. Consequently, the acquirer of a property with multiple tenants who adopts associated processes such as security and maintenance acquires one asset instead of inputs and processes applied to those inputs that have the ability to create outputs, ie a business (see paragraph B7 of IFRS 3).
20. However, we do not think that the purpose of the guidance in paragraphs 11-14 of IAS 40 is to delineate a business combination from the acquisition of a single asset, or the scope of IFRS 3 from the scope of initial recognition requirements in paragraph 20-29 of IAS 40. Instead, we think that these paragraphs have been developed to differentiate investment property from owner-occupied property (see paragraph 12 of IAS 40), or to delineate the scope of IAS 40 from the scope of IAS 16 *Property, Plant and Equipment* (see paragraph 7 of IAS 40).
21. Furthermore, we do not have evidence that Board explicitly discussed the interrelation of IFRS 3 and IAS 40 or the significance of ancillary services provided by the owner of a building to the lessees who occupy the building for the

classification of an acquisition of an investment property with associated processes as a business during the business combinations project.

22. Some proponents of the view that the ‘unit of account’ is the property together with associated insignificant ancillary services think that there would be no purpose for the guidance on the initial recognition of an investment property in paragraphs 20-29 of IAS 40, if the acquisition of a single investment property with insignificant ancillary services would be considered a business combination. In this case, they think that acquisition of an investment property would always be accounted for as a business combination, in which case the guidance in IAS 40 on initial recognition would be redundant.
23. However we are not persuaded by this argument because IAS 40 also applies to (see paragraph 8(a) and (b) of IAS 40):

    (a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business; and
    (b) land held for a currently undetermined future use, which may be unimproved land where no activity takes place on it.