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Item 4 of the Agenda

Draft EPSAS Screening Report
IPSAS 16 – Investment Property

Paper by PwC in cooperation with Eurostat

- for discussion -

This document was commissioned by Eurostat. It analyses the consistency of the named IPSAS standard with the draft EPSAS framework, with a view to informing future EPSAS standard setting. This version was prepared taking into account comments received from the participants of the Cell on Principles related to EPSAS Standards.

EPSAS screening report

IPSAS 16 - Investment property

October 2020

pwc

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Background

Objectives

Reference should be made to the general introduction to the EPSAS screening reports that covers the following elements:

- Key objectives of EPSAS.
- Standard setting process in the public sector.
- Purpose and scope of the screening reports.
- Approach of the screening reports.
- European public good.
- Common elements considered when preparing the reports.

General introduction to IPSAS 16

IPSAS 16 is based on International Accounting Standard (IAS) 40 ‘Investment Property, approved by the International Accounting Standard Board. In developing IPSAS 16, the International Public Sector Accounting Standards Board (IPSASB) applied its ‘Process for Reviewing and Modifying IASB Documents’ that identifies public sector modifications where appropriate. This approach enables the IPSASB to build on best practices in private sector financial reporting, while ensuring that the unique features of the public sector are addressed.

The objective of the IPSAS 16 standard is to prescribe the accounting treatment for investment properties. The standard defines investment property as land or building (or part of it) **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. Properties meeting the definition of investment property are those held under finance and operating leases. For the latter, the recognition as investment property is optional and can be done on a property-by-property basis, provided the lessee uses the fair value model for the asset recognised.

The investment property category does not include biological assets related to agricultural activity or mineral rights and reserves.

Investment properties are carried either at historical cost less accumulated depreciation and any accumulated impairment losses (the cost model under IPSAS 17 ‘Property, plant and equipment’), or at fair value (the fair value model) with fair value changes recognised in the statement of financial performance. When the cost model is used, the fair value should be disclosed. Application of the cost model, including application of the components’ approach, is discussed in the EPSAS screening paper on IPSAS 17 ‘Property, plant and equipment’.

The entity should choose the same measurement model for all investment properties.

There is a presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. This presumption can however be rebutted on a property-by-property basis in exceptional cases only, that is when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value are not available.

An under-construction investment property to which this rebuttal applies is initially measured at cost until the moment when the construction is completed, or the fair value can be measured reliably (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 should measure that investment property using the cost model in IPSAS 17.

An entity is encouraged, but not required, to determine the fair value of investment property 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.

Scope of the report

The present screening report analyses the recognition, measurement, presentation and disclosure requirements of investment properties.

Reference to EFRAG assessment

No specific individual technical assessment of IAS 40 ‘Investment property’, the IFRS equivalent of IPSAS 16, was carried out by the EFRAG, and therefore no specific individual endorsement report was produced.

The EFRAG however provided on 19 June 2002 a positive assessment of all IAS standards existing at 1 March 2002, including IAS 40, as part of the overall introduction of IAS within the EU.

In addition, EFRAG issued in 2017 a separate endorsement advice on the amendment ‘Transfers of investment property’, that became effective for annual periods beginning on or after 1 January 2018. EFRAG concluded that the amendments are not contrary to the true and fair view principle.

Reference to EPSAS issue papers[1]

The PwC study of 2014[2] analysed the suitability of the IPSAS standards as a basis for developing EPSAS. This included the analysis of IPSAS 16. Following this analysis, IPSAS 16 was classified among the category ‘Standards that could be implemented with minor or no adaptations’. The study indeed revealed no major conceptual issues with IPSAS 16, the only comments received related to the cost and complexity upon first-time implementation for fixed assets in general.

[1] EPSAS Issues papers are available on https://ec.europa.eu/eurostat/web/epsas/key-documents/technical-developments

[2] Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards (Ref. 2013/S 107-182395)

During the course of developing the technical proposal on EPSAS, Eurostat commissioned a series of twenty technical issues papers (IPs), which analyse in particular key public sector specific accounting issues. The papers were discussed at EPSAS Working Group meetings during the period 2016-2018. The papers are all publicly available on Eurostat's website.

No issue paper covered the accounting treatment of investment properties. The issue paper on narrowing down the options within IPSAS noted the option to choose between the cost model or the fair value model under IPSAS 16 but did not consider it as a notable option.

Screening of IPSAS 16 'Investment property' against criteria set in the draft EPSAS framework

Introduction

The EPSAS criteria listed in the draft EPSAS framework have been used to perform an assessment of IPSAS 16 'Investment Property', published in 2001 by the IPSASB, and revised in 2006.

In order to develop recommendations, one should first consider whether IPSAS 16 would meet the qualitative characteristics of the draft EPSAS CF, i.e. whether it would provide relevant, reliable, complete, prudent, neutral, verifiable, economically substantive, understandable, timely and comparable information and would not be contrary to the true and fair view principle.

This report considers recognition, classification and measurement as well as presentation and disclosure requirements applicable to investment properties for each of the qualitative characteristics of the draft EPSAS CF.

Further, this paper includes a high-level comparison between the requirements of IPSAS 16 and other international accounting and financial reporting frameworks applied by the public sector entities in various jurisdictions, such as IFRS, ESA 2010 and EU Accounting Rules, bearing in mind the objective of alignment, reduction of cost of implementation and compliance cost.

The findings are presented below and the conclusion is included in the next section of this report.

Conformity with Qualitative Characteristics

Relevance

The objective of IPSAS 16 is to prescribe the accounting treatment for investment property and the related disclosure requirements.

The principal issues in accounting for investment properties include:

- Recognition of investment properties, including the assessment of whether the fixed asset meets a definition of the investment property.
- Selection of an accounting policy for the subsequent measurement of investment properties.
- Determination of the fair value of investment properties.
- Accounting for transfers to and from investment property.

The recognition principles in the standard are consistent with the definition of an asset in the draft EPSAS CF. As a reminder, an asset is a resource presently controlled by the entity as a result of past events or transactions. A resource is an item with service potential or the ability to generate economic benefits. Service potential is the capacity to provide services that contribute to achieving the entity's objectives. Economic benefits are cash inflows or a reduction in cash outflows.

Under IPSAS 16, investment property should 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 element will flow to the entity; and (b) the cost or fair value of the investment property can be measured reliably.

Once recognised, the investment property must be initially measured at its cost including transaction costs. As an exception, when the investment property is acquired through a non-exchange transaction, its cost is measured at its fair value at the date of acquisition.

For subsequent measurement, entities can opt for one of the two different measurement models: cost or fair value. Under the cost model, investment property is measured at depreciated cost less any accumulated impairment losses. When the fair value model is used, the fair value of investment property should be updated at every reporting date, reflecting the current market conditions.

The definition of fair value refers to 'knowledgeable, willing parties', and 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. In the absence of current prices in an active market, an entity considers information from a variety of sources, including:

- 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;
- 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
- 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.

Information provided is relevant under draft EPSAS CF if it is capable of making a difference in achieving the objectives of GPFSs. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both.

The information about investment property as required by IPSAS 16 under the cost model is relevant and consistent with the information required by IPSAS 17 'Property, plant and equipment' for own-occupied properties. In addition, IPSAS 16 requires entities that use the cost model to also disclose the fair value of investment property.

The conceptual case for the fair value model is built largely on the view that this provides the most relevant and transparent view of the financial performance of an investment property, which is held to earn rentals or for capital appreciation, and not for own use. Consequently, in a fair value model, changes in the fair value of investment properties are recognised in the statement of financial performance as part of surplus/deficit for the period.

In addition to the fair value, the standard requires disclosures that enhance the confirmatory and predictive value of the information. For example, entities should disclose the methods and significant assumptions applied in determining the fair value of investment properties, 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 should disclose) because of the nature of the property and lack of comparable market data. The disclosure of fair value has both confirmatory and predictive values, with some potential constraints. For instance, the use of internal assumptions not confirmed by the observable market data could affect the reliability of the information (see also "Faithful representation/ Reliability" QC).

The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure, in line with IPSAS 17. This information has a confirmatory value for the users of the GPFSs.

Faithful representation / Reliability

The notion of faithful representation and reliability in the draft EPSAS CF is linked to the qualitative characteristics of completeness, prudence, neutrality, verifiability and substance over form. These are separately discussed below.

It could be argued that reliability of the fair value measurement may differ, depending on the maturity of the valuation profession in each country[3] and the type of investment property. Therefore, for some items of investment property with no history of observable market transactions, the fair value method may not provide reliable information. The standard includes an assumption that 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.

Further guidance and illustrative examples could be necessary in order to achieve consistent application of the valuation techniques to various types of investment properties held by the public sector entities, in order to account for differences in the

[3] Basis for Conclusions on IAS 40 Investment Property - The choice between the cost model and the fair value model - BC11-16.

nature, location or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.

Furthermore, the cost model may not always faithfully depict the current value of the property and its service potential. Fair value provides a better reflection on how the value of the investment property evolves over time.

Accounting policies are applied consistently to all investment properties. 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 following the completion of construction or development, or 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 entity should in such case use the cost model. This requirement enhances the reliability of the information provided to the users.

Completeness

All assets that meet the definition of investment property are recognised in the financial statements. Entities must disclose whether the fair value model or the cost model is applied. However, even in case the entity applies the cost model, fair value should be disclosed.

Both measurement models require a reconciliation between carrying amounts at the beginning and end of the period, showing additions (disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset), disposals, transfers, net exchange differences. Also, in the cost model, depreciation and impairments are shown separately. Under the fair value model, fair value gains and losses from fair value adjustments are disclosed separately from additions and disposals.

For all investment properties, entities should disclose the amounts recognised in surplus or deficit for rental revenue from investment property and direct operating expenses. For the direct operating expenses, the information is given separately for investment properties that generated rental revenue and investment properties that did not generate rental revenue during the period.

When, in exceptional cases, it is determined that the fair value cannot be determined reliably, the entity should include a description of the investment property, an explanation of why it cannot be measured reliably, the likely fair value range and additional information relating to the disposal of such investment property not carried at fair value.

When the determination of fair value is not supported by market evidence but is more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data, this fact should be disclosed. This

requirement contributes to the completeness and verifiability of the information provided to the users of GPFSs.

Where the cost method is used, the standard requires entities to disclose the methods and significant assumptions applied in determining the fair value of investment property for disclosure purposes. This information is relevant for the users and enhances completeness and reliability QCs.

Prudence

Parts of investment property may have been acquired through replacement. 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 the standard.

These requirements are consistent with IPSAS 17, as well as with the criteria applied when an item of investment property is initially recognised and are not in contradiction to the definition of an asset under the draft EPSAS CF.

Some may believe that there is no need to capitalise subsequent expenditure in a fair value model and that all subsequent expenditure should be recognised as an expense. However, the failure to capitalise subsequent expenditure would lead to a distortion of the reported components of financial performance. Therefore, the standard requires that an entity should determine whether subsequent expenditure should be capitalised using a test similar to the test used for owner-occupied property in IPSAS 17.

Information provided by measuring an item of investment property at historical cost is prudent, because historical cost uses information derived from the price of the past transaction. Normally, if an entity acquired an asset in a recent transaction on arm's length terms, the entity expects that the asset will provide sufficient economic benefits or service potential so that the entity will at least recover the cost of the asset. Because historical cost is reduced to reflect consumption of an asset through depreciation and is subject to an impairment test if needed, the amount expected to be recovered from an asset measured at historical cost exceeds its carrying amount. IPSAS 17 stipulates that an entity should apply the procedures described in IPSAS 21 'Impairment of non-cash-generating assets' and IPSAS 26 'Impairment of cash-generating assets' when an asset is impaired in order to make sure that the carrying amount of an asset is not overstated versus its economic value or service potential. This approach normally provides a relevant and prudent ongoing measurement for an item of investment property, consistent with other items of PPE (for example, own-used properties of an entity).

The fair value model reflects the current value of investment property. The fair value is adjusted for any changes, since the previous measurement date, in estimates of cash flows and other underlying assumptions.

Unlike historical cost, the current value of an asset is forward looking and not derived from the price of the transaction that resulted in the asset recognition. Fair value

measurement may provide a cyclical impact on the surplus/deficit, creating a potential volatility because of unrealised gains and losses, even for the assets held for a long period of time. Unlike for PPE, where the increase in fair value is credited to revaluation surplus (within equity), changes in the fair value of investment property are recognised in surplus/deficit.

Some may argue that the fair value model for investment property is not appropriate and does not meet prudence QC, on the grounds that fair value is in some cases not reliable and that the distinction between investment property and owner-occupied property will be based on management intentions and lead to a free choice of different accounting treatments for similar properties. On the other hand, information about the fair value of investment property, and about changes in its fair value, is relevant to users of financial statements, specifically considering the purpose for holding investment properties (capital appreciation or earning rentals). The current standard permits the fair value model so that the entities can report fair value information prominently.

Neutrality

Information is neutral if it is free from bias. GPFSs are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

The principles included in IPSAS 16 have been tested for many years in the private sector. Users perceived no negative impact of IAS 40 (the IFRS equivalent) on the neutrality of the IFRS financial statements. The requirements to apply accounting policies consistently year on year and to disclose such policies in the notes to the accounts reinforce the neutrality QC.

Verifiability

Verifiability is the quality of information that helps assure users that GPFSs is based on supporting evidence in a way that it faithfully represents the substance of economic and other phenomena that it purports to represent.

Cost information is easily verifiable with supporting documents. Depreciation methods and useful lives are also required to be disclosed. When the cost of an item of investment property includes the cost of site dismantlement, removal and restoration, this element is calculated based on the assumptions such as the timing of the removal and the future level of prices. This uncertainty (and the lack of verifiable information to support the judgmental elements) is however mitigated by disclosure of changes in estimates in accordance with IPSAS 3.

Fair value information is less verifiable than cost information and involves certain assumptions that are not always observable on the market. Although it would have an impact on the assessment of verifiability, it can improve relevance of the information provided in view of the accountability and decision-making objectives of financial statements.

IPSAS 16 requires all entities, either using the cost or fair value model, to disclose 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.

Users can reconcile the investment property movements to other parts of the financial statements (cash flows from investing activities, non-cash transactions, etc). Examples include investment properties acquired through public sector combinations, acquisitions through finance leases and other non-cash transactions disclosed separately following the requirements of IPSAS 2 ‘Cash flow statements’.

A cohesiveness between various disclosure notes provides evidence of verifiable information.

Substance over form

Measurement of items of investment property using the IPSAS 16 requirements reflects the economic substance of assets generating independent cash flows through rentals or capital appreciation, either by showing the depreciated historical cost of these assets (under the cost model) or the current value of the assets (under the fair value model). Both measurement models may be of relevance with regards to the accountability and decision-making objectives of the financial statements.

Transfers to or from investment properties are recognised when, and only when there is a change in use. This change in use should be evidenced by events such as, among others, commencement of owner occupation and commencement of development with a view to sale. For example, 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.

Entities that lease property to other entities of the same group could have a different classification in their individual and consolidated financial statements[4]. It is for example not uncommon that a single entity/agency within a government manages all real estate properties of the government and leases them to the other government entities. This should be considered in the financial reporting process of public sector entities.

The key distinctive feature of an investment property is that it generates cash flows largely independently of the other assets of the entity. Properties occupied or used by their owners or properties for sale in the ordinary course of operations are not investment properties. They are items of property, plant and equipment (PPE) or items of inventory, respectively. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not merely to the property, but also to the other assets used in the production or supply process.

[4] See IPSAS 16, para 19

Proponents of the fair value model for investment property argue that this distinction makes a fair value model more appropriate for investment property than for owner-occupied property. The economic performance of an investment property can be regarded as being made up of both rental income earned during the period (net of expenses) and changes in the value of the future net rental income.

If an insignificant portion is owner-occupied, the whole property can be classified as an investment property. The standard has no quantitative guidance (such as a percentage) to clarify whether an 'insignificant portion' is owner-occupied and whether ancillary services are 'significant'. As for similar cases in other standards, the IPSASB concluded that quantitative guidance would create arbitrary distinctions.

The classification decision can be difficult for properties that share characteristics of both PPE and investment properties. For example, the owner of the investment property may be exposed to the returns of the tenant economic activity through variable lease payments. Entities should disclose the criteria used in assessing whether something is investment property or owner-occupied property where this involves judgement (IPSAS 16 para 86 (c)). The standard requires an entity to develop criteria so that it can exercise that judgment consistently and reflect the economic substance of its real estate investments in accordance with the definition of investment property and with the related guidance in IPSAS 16.

Understandability

The 'Understandability' QC is achieved when information is presented in a manner that facilitates expert and non-expert users to comprehend its meaning.

Sometimes it may be difficult to assess whether the definition of investment property is met. When this is the case, the standard requires the entity to provide information about the criteria used to distinguish investment properties from owner-occupied properties, and from properties held for sale in the ordinary course of business.

Appropriate disclosures about the accounting policies and the methods used to determine fair value also contribute to a good understanding of the financial statements.

Comparability

A key objective of EPSAS is to achieve the necessary level of financial transparency and comparability of financial reporting, between and within EU Member States.

Judgement is required for the entities to decide whether investments would meet the definition of investment properties or not. When classification is difficult, the potential lack of comparability is mitigated by the obligation to disclose the criteria that led to the classification.

An investment property should be initially measured at its cost, except when the item is acquired through a non-exchange transaction (fair value is then applied). However, for measurement after recognition, entities must decide whether to apply the cost model or the fair value model for all investment properties. When the cost model is applied, the fair value of the investment property should be disclosed.

There is often no active market for investment property (unlike for many financial instruments). Real estate transactions are less frequent and homogeneous. The use of judgment and estimates for the fair value measurement may thus to a certain extent impair comparability. However, the guidance in the standard on how to determine fair value and the disclosure of assumptions and methods used for determining fair value measurements assist users in comparing the inputs used for measurements, thus improving comparability. Further, application of the fair value model may be slightly more costly to implement and maintain, due to the need to estimate fair values for measurement purposes on a regular basis (in practice, the estimation of fair values for disclosure purposes might require a slightly lesser degree of accuracy).

A depreciated cost measurement provides a more consistent, less volatile, and less subjective measurement, but it might be at the expense of the relevance for the users (especially given the purpose for holding investment properties, that is capital appreciation or earning rentals).

Overall, cost-benefit considerations should guide the choice of a particular accounting policy versus another. In addition, different users of financial statements may have different views of what these costs or benefits are. Allowing an accounting policy choice increases the relevance of information for governments that have a strong preference in using one of the two methods for accountability and decision-making purposes. In addition, in case an accounting policy choice would be possible, the requirement to disclose the fair value of investment properties in the notes for entities that use the cost model mitigates the lack of comparability.

It should finally be noted that the option, even if significant, was not classified as a 'notable option' in the EPSAS issue paper on narrowing down the options.

Alignment with other frameworks

ESA 2010

In IPSASs, the classification of a property is determined by whether it is an investment property or not. ESA 2010 distinguishes properties according to whether they are produced non-financial assets or non-produced non-financial assets.

In terms of subsequent measurement, assets are measured at current prices as if they were acquired at the balance sheet date under ESA 2010. The measurement approach under ESA 2010 closely agrees with the fair value model under IPSAS. Under IPSAS, any revaluation should be done at the individual asset level while more global evaluations can be used for the ESA 2010 reporting.

Indeed, a major difference between ESA 2010 and IPSAS stems from the calculation of their respective surplus/deficit calculations. Under ESA rules, acquisitions of items of PPE are recorded as capital expenditures within surplus/deficit (i.e. net lending/net borrowing under ESA 2010) in the period of acquisition. The full impact is taken in the year of acquisition. In contrast, under IPSAS, the impact on the statement of financial

performance is taken over time through yearly depreciation expenses and/or impairments. Under ESA 2010 rules, the concept of impairment is not applied.

IFRS[5]

IPSAS 16 is similar to IAS 40, its IFRS equivalent. Differences include the following:

- Differences in the terminology used.
- Where an asset is acquired for no cost or for a nominal cost, its cost under IPSAS 16 is its fair value as at the date of acquisition. IAS 40 requires investment property to be initially measured at cost.
- There is additional commentary to make clear that IPSAS 16 does not apply to property held to deliver a social service that also generates cash inflows; such property is accounted for in accordance with IPSAS 17.
- The current version of IAS 40 includes references to concepts related to IFRS 16 (the new IFRS leases standard), which is not yet adapted by the IPSASB.

EU accounting rules

EU Accounting Rule 7 'Property, Plant, and Equipment' is based on IPSAS 17. EU AR 7 selects the cost model for the subsequent measurement of items of PPE. No specific EU AR deals with investment properties.

European Public Good

Assessing whether IPSAS 16 is conducive to the European public good

The assessment of whether IPSAS 16 would be conducive to the European public good addresses the following items:

a) Whether the standard will improve financial reporting;
b) The costs and benefits associated with the standard; and
c) Whether the standard could have an adverse effect to the European economy, including financial stability and economic growth.

These assessments will allow the EU authorities to draw a conclusion as to whether the standard is likely to be conducive to the European public good.

The analysis revealed no reasons why IPSAS 16 would not be conducive to the European public good:

- Recognition, classification, measurement, presentation and disclosure requirements of IPSAS 16 will provide useful information to the users of the GPFSs and will

[5] Refer to the IPSAS-IFRS Alignment Dashboard regularly updated by the IPSASB available on https://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.5%20IPSAS%20IFRS%20Alignment%20Dashboard_June%202019.pdf

improve the overall quality of financial reporting in the public sector. However, the question of whether an accounting policy choice should be imposed or permitted, or not, between the cost model and fair value model, should be answered bearing in mind the arguments developed earlier in the present report.

- Investment properties do not generally represent very large amounts of assets (especially as compared to property, plant and equipment) in governments' balance sheets. The introduction of the standard may result in a moderate one-off implementation cost and a moderate maintenance cost on an ongoing basis for preparers, especially linked to the need to estimate the fair values of investment properties on a regular basis (for measurement or disclosure purposes).

- Considering its conceptual merits, the standard will bring improved financial reporting when compared to heterogeneous reporting requirements currently applied in the EU. As such, its endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship. The analysis has not identified any adverse effect of the standard to the European economy, including financial stability and economic growth, or any other factors that would mean the standard is not conducive to the European public good.

Conclusion

Assessing IPSAS 16 against the criteria formulated in the draft EPSAS framework

The analysis has not revealed major conceptual issues with IPSAS 16 'Investment property' and has not identified any inconsistency between IPSAS 16 and the draft EPSAS framework.

Following the screening analysis summarised in the present report, the future standard setter could consider the following conclusions. The information resulting from the application of IPSAS 16:

- would provide relevant, reliable, complete, prudent, neutral, verifiable, economically substantive, understandable, timely and comparable information needed for making economic decisions and achieving the necessary level of financial transparency and comparability of financial reporting in the European Union;
- would not be contrary to the true and fair view principle; and
- would be conducive to European public good.

However, in order to achieve consistent application of the new standard within the EU context and therefore better address the comparability objective of EPSAS financial statements, additional guidance might be desirable:

- *Cost model versus fair value model.* The accounting policy choice that has the most significant impact on the carrying amount of investment properties presented in the financial statements is the selection of either the cost model or the fair value model for the subsequent measurement of items of investment property. This accounting policy choice creates a potential risk of a lack of comparability between governments that may use different models for properties having a similar use, which is partially offset by the requirement to disclose the fair value of investment properties in the notes for entities that use the cost model. The option, even if significant, was not classified as a 'notable option' in the EPSAS issue paper on narrowing down the options.

- *Judgment and comparability.* The use of judgment and estimates is inherent in the preparation of financial statements and may to some extent affect the comparability of financial statements.

The analysis has not identified any adverse effect of the standard to the European economy, including financial stability and economic growth, or any other factors that would mean the standard is not conducive to the European public good.

The future standard setter could consider the conclusions of this assessment and likely net benefit of using the requirements of IPSAS 16 as a starting point in implementing the equivalent EPSAS, considering the need for additional guidance in certain areas and resolution of the matters identified in the present EPSAS screening report.