Query No. 31

Subject: Classification of certain standalone land parcels held to earn rentals as Right-of-Use Assets under Ind AS 116 vis-à-vis Investment Property under Ind AS 40.[1]

A. Facts of the Case

1. A Company (hereinafter referred to as 'the Company'), which is a joint venture of the Government of India (GoI) and the Government of National Capital Territory of Delhi (GNCTD), is entrusted with the construction, operation and maintenance of the rail-based Mass Rapid Transit System (MRTS) for the Delhi/NCR region. The Company has further been mandated by the Ministry of Housing and Urban Affairs (MoHUA) to undertake value capture from Property Development initiatives for sustainable revenue generation for the Company *vide* its Policy Circular No. K-14011/8/2000-MRTS (Pt.) dt. 30.3.2009. The land belonging to various Ministries/Departments as well as autonomous/statutory bodies/agencies of GoI/GNCTD, which is required for the project, including for Property Development purpose, is allotted to the Company on perpetual/99 years' lease basis.

2. Pursuant to the mandate of MoHUA, the Company undertakes leasing/licensing of certain land parcels for commercial purposes as part of its structured non-fare revenue stream. Within this framework, certain *standalone* land parcels i.e., parcels not forming part of station buildings, have been allotted or licensed to third parties for commercial exploitation with the intention of earning rentals.

3. 'Real Estate' activity constitutes a separately identifiable and formally disclosed operating segment in accordance with Indian Accounting Standard (Ind AS) 108, 'Operating Segments'. The standalone land parcels described above are allotted to the Company under long-term/perpetual leases. As per the querist, these arrangements fall within the scope of Ind AS 116, 'Leases', which requires the recognition of a Right-of-Use (ROU) asset for leased assets. Accordingly, the ROU assets for these land parcels are presented within Property, Plant and Equipment (PP&E).

4. During the supplementary audit of the financial statements of the Company for financial year (F.Y.) 2024–25, the office of the Comptroller & Auditor General of India (C&AG) issued a provisional comment stating that 11 land parcels held by the Company for the purpose of earning rentals should have been classified as Investment Property in accordance with Ind AS 40, 'Investment Property'. In response, the Company submitted that these land parcels form part of a mandated non-fare revenue framework, are operationally and economically integrated with the metro system, and are therefore, correctly accounted for as Right-of-Use assets under Ind AS 116. The C&AG office dropped the observation based on the Company's assurance that the matter would be referred to the Expert Advisory Committee of ICAI for its expert opinion.

5. The querist has stated that paragraph 7 of Ind AS 40 provides that 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 land parcels under consideration are located within the Metro Network Influence Zone, and their rental and commercial potential arise directly from metro commuter traffic, station connectivity, and the

[1] Opinion finalised by the Committee on 26.4.2026.

demand generated by the transport network. Their development is structured to complement metro infrastructure, and they do not generate independent cash inflows. Thus, as per the querist, they do not satisfy the independence-of-cash-flows criterion required for classification as investment property. The above contention regarding interdependency of cash flows is also evidenced by the Requests for Proposals (RFPs) floated by the Company for property development at these land parcels which clearly identify the properties as being strategically located near metro stations, and its commercial success is expected to be driven by the metro rail's presence and the associated increase in footfall.

6. As per proposed modifications to Master Plan 2021 by Delhi Development Authority/Central Government, Transit-Oriented Development (TOD) Zone has been defined as area under 500m wide corridor on either side of centerline of the existing and planned/approved Metro Corridors/Routes and 500m radius node of regional and inter-state mass transit stations, such as, Regional Rapid Transit System (RRTS)/Railway Stations/ High Speed Rail (HSR) etc. The subject land parcels fall within this TOD framework, further evidencing their functional integration with the metro system rather than their existence as standalone investment assets.

7. Leasing/licensing of land for property development is a mandated activity under the MoHUA's Order dated 30.03.2009, which inter-alia, states that:

> "2. Property Development… These commercial activities apart from enhancing the appearance and ambience of the stations, attract more commuters to the metro system, improving ridership and assisting in traffic integration...
>
> 3…
>
> iv) Raising resources through property development is one of the ways of mobilizing resources for the project. Therefore, the word "project" would also include "property development".
>
> v) Property development on acquired land shall also be considered as part of the "project"."

8. As per the Detailed Project Report (DPR) of metro projects, development and commercial utilisation of land and air space along/close to this transport system and its facilities are considered essential to supplement financial resources for construction and operation of the system. With construction of Metro corridor, demand of other consumer sectors is also expected to go up. Also, property development can be used for financing of the project. It is expected that 5% of the financing can be achieved through property development.

9. Paragraph 10 of Ind AS 40 lays down the principles for treatment of a portion of an owner-occupied property which is used for earning rentals. Paragraph 10 of Ind AS 40 reads as below.

> "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."

(Emphasis supplied by the querist.)

In the given context, under the MoHUA Order dated 30.03.2009, Property Development is explicitly defined as an integral part of the metro project. Therefore, as per the querist, while the land parcels are physically distinct or standalone, their classification should be viewed through the lens of their restricted use and integration into the metro assets. The land is allotted to the Company on a perpetual or long-term lease specifically for the project, more specifically for Property Development purposes. Thus, in the context of a public utility project, the 'property' should be viewed constructively as forming part of the entire metro corridor. Accordingly, as per the querist, given that these parcels cannot be independently sold or leased under a finance lease due to the conditions of allotment of land to the Company, in line with the principles enunciated in paragraph 10 of Ind AS 40 as well, classification of such land parcels as 'Investment Property' would be incorrect.

10. The summarised position of 11 land parcels is as follows:

S.No.	**Description of Property**	**Carrying Value as at March 31, 2025**	**Closest DMRC Metro Station**	**Proximity to the Metro Station/Corridor**	**Whether can be given on finance lease**
1	Pitampura Madhuban Chowk	47,56,141	Pitampura	within 500 m radius	No
2	Rohini West	73,36,217	Rohini (West)	within 500 m radius	No
3	Land at Janakpuri -DDA	1,55,86,789	Janakpuri (West)	within 500 m radius	No
4	Land At Khayala (PD)	4,26,17,911	Subhash Nagar	within 500 m radius	No
5	Land at Dwarka Sector 21 for Airport Line	5,51,71,661	Dwarka Sector-21	within 500 m radius	No
6	Land at HUDA Sector 20B Faridabad	1	Bata Chowk	within 500 m radius	No
7	Shastri Park (PD Land)	4,62,84,551	Shastri Park	within 500 m radius	No
8	Khyber Pass	5,01,45,929	Vishwavidyalaya Metro Station	within 500 m radius	No
9	Land a Sarita Vihar for Depot	3,02,14,823	Sarita Vihar	within 500 m radius	No
10	Land at Bhai Veer singh Marg (PD)	2,74,28,928	Shivaji Stadium Station (Airport Express Line)	within 500m radius	No
11	Land at Netaji Subhash Place	20,00,31,565	Netaji Subhash Place	within 500m radius	No

In essence, these land parcels derive their utility and cash flows from their integral linkage to metro operations and not from independent rental activity. They form part of the Company's mandated project and cannot be independently sold or leased under a finance lease due to the conditions of allotment of land to the Company.

11. Paragraph 5 of Ind AS 40 defines 'Investment Property' as below:

> ***"Investment property*** **is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) 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."**

According to the querist, the use of the phrase 'rather than' in the above quoted definition signifies a clear demarcation within the Standard. As per the querist, the properties that are used in, or are integral to, the supply of services, and form part of the entity's operating activities, fall outside the scope of investment property under Ind AS 40.

12. Further, paragraph 9 of Ind AS 40 clarifies that owner-occupied property is not an investment property and, therefore, is outside the scope of that Standard. As defined in paragraph 5 of Ind AS 40, owner-occupied property refers to property held (by the owner or by the lessee as a right-of-use asset) for use in the production or supply of goods or services or for administrative purposes. Real estate, being one of the major business activities of the Company, forms part of a formally approved and separately monitored operating segment which is disclosed in accordance with Ind AS 108, 'Operating Segments'. Thus, land parcels utilised for such activities represent assets of an operating segment and are not passive investment assets.

B. Query

13. The querist has sought the opinion of the Expert Advisory Committee on the following issues:

(i) Whether the current classification of aforesaid properties as 'Right-of-use assets' in the books of the Company is appropriate and compliant with applicable Ind AS requirements.

(ii) If not, what should be the correct and Ind AS-compliant treatment for such properties?

C. Points considered by the Committee

14. The Committee notes that the basic issue raised by the querist relates to the classification of certain standalone land parcels held to earn rentals. The Committee has, therefore, considered only this issue and has not examined any other issue that may be contained in the Facts of the Case, such as detailed accounting of ROU assets including their presentation and disclosure, disclosure of real estate as an operating segment under Indian

Accounting Standard (Ind AS) 108, 'Operating Segments', situation of subleases yet to be entered into, etc. Further, the opinion hereinafter has been expressed in the context of Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules, 2015, as amended or revised from time to time. From the Facts of the Case, the Committee notes that the standalone land parcels i.e., parcels not forming part of station buildings, held under lease have been (sub)leased or licensed to third parties for commercial exploitation with the intention of earning rentals. It appears that the licensing is, in substance, leasing. Further, the Committee presumes that entire property development is the responsibility of the lessee/licensee, while commercial exploitation of the developed property in accordance with the terms and conditions of the lease/license during the period of lease/license is the right of the lessee/licensee and that the Company earns rental income during that period.

15. At the outset, the Committee notes that the 11 standalone land parcels allotted to the Company have been treated as assets held under lease. The Committee presumes that the Company has correctly identified the arrangement as lease in accordance with Ind AS 116, 'Leases'. From the Facts of the Case, the Committee notes that the Company holds the aforesaid land parcels under lease and the purpose of holding such land parcels is to earn rentals by subleasing them on operating lease basis/licensing (since as the per facts supplied by the querist, these parcels cannot be independently sold or leased under a finance lease due to the conditions of allotment of land to the Company). Thus, the standalone land parcels are the underlying assets in the 'head lease' as well as the sublease. The Company is a lessee in the head lease and the lessor in the sublease (i.e., the Company is an intermediate lessor). The Committee is of the view that for accounting purposes, the Company should classify the sublease as operating lease or finance lease as the case may be in accordance with Ind AS 116 by reference to the ROU asset arising from the head lease and not by reference to the land parcels themselves. In this regard, the Committee notes paragraph B58 of Ind AS 116, as reproduced below:

> "B58 In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows:
>
> (a) if the head lease is a short-term lease that the entity, as a lessee, has accounted for applying paragraph 6, the sublease shall be classified as an operating lease.
>
> (b) otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset (for example, the item of property, plant or equipment that is the subject of the lease)."

From the above, the Committee is of the view that if the sublease in the extant case is assessed as finance lease, then, the ROU asset should be derecognised and net investment in the sublease should be recognised in accordance with Ind AS 116, in which case, Ind AS 40, 'Investment Property' is not applicable at all. This may happen, for example, if the Company subleases the underlying asset for all or most of the remaining term of the head lease. In this regard, the Committee notes Basis for Conclusions paragraph BC179 of International Financial Reporting Standard (IFRS) 16, 'Leases', relevant portion of which is reproduced below:

"BC179 … However, the IASB noted that there are two factors that will lessen the likelihood that entities that are not in the property industry will hold investment property as a right-of-use asset:

(a) IFRS 16 requires an entity to classify a sublease by reference to the right-of-use asset arising from the head lease (see paragraphs BC233–BC234). Consequently, an intermediate lessor would classify a sublease as a finance lease if it subleases the asset for all or most of the remaining term of the head lease. In those cases, the intermediate lessor would apply finance lease accounting (ie recognise a net investment in the sublease rather than the underlying right-of-use asset) and, thus, would not be required to apply the requirements of IAS 40. The IASB observed that entities that are not in the property industry that wish to reduce property costs would generally aim to secure a sublease for the entire remaining period of the head lease, which (if successful) would result in finance lease accounting.

(b) …"

Further, the Committee notes that as per paragraph 9(e) of Ind AS 40, property that is leased to another entity under a finance lease is not an investment property.

On the other hand, in the extant case, if the sublease is assessed as an operating lease, the issue that arises is whether the ROU asset should be classified as such or as investment property in accordance with Ind AS 40. This is because the ROU asset can also be an investment property as per the definition of investment property, reproduced in paragraph 16 below. This issue is addressed in the paragraphs that follow.

16. The Committee notes the following requirements from Ind AS 40, 'Investment Property':

***"Owner-occupied property* is property held (by the owner or by the lessee as a right-of-use asset) for use in the production or supply of goods or services or for administrative purposes".**

***"Investment property* is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) 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".

"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."

Further, the Committee notes Basis for Conclusions paragraphs B37 and B38 of International Accounting Standard (IAS) 40, 'Investment Property' and Basis for Conclusions paragraph BC179 of IFRS 16, as reproduced below:

"B37 The classification of hotels and similar property was controversial throughout the project and commentators on E64 had mixed views on this subject. Some see hotels essentially as investments, while others see them essentially as operating properties. Some requested a detailed rule to specify whether hotels (and, perhaps, other categories of property, such as restaurants, bars and nursing homes) should be classified as investment property or as owner-occupied property.

B38 The Board concluded that it is preferable to distinguish investment property from owner-occupied property on the basis of general principles, rather than have arbitrary rules for specific classes of property. Also, it would inevitably be difficult to establish rigorous definitions of specific classes of property to be covered by such rules. Paragraphs 11–13 of the Standard discuss cases such as hotels in the context of the general principles that apply when an entity provides ancillary services."

"BC179 … However, the IASB noted that there are two factors that will lessen the likelihood that entities that are not in the property industry will hold investment property as a right-of-use asset:

(a) …

(b) entities that are not in the property industry may not be within the scope of IAS 40 if they sublease a property under an operating lease with the intention of subsequently using the property within their own business. Such a property would not meet the definition of an investment property

in IAS 40 because it would not be held solely for rentals, capital appreciation or both."

From the above, the Committee is of the view that whether ROU asset should be classified as such or as investment property depends on whether it meets the definition of owner-occupied property or investment property (as reproduced above). Further, reading from the requirements of Ind AS 40 and BC paragraphs of IAS 40, the Committee is of the view that if an entity leases out a property (being land or a building or part of a building or both) on operating lease basis and also provides services to the lessee which are insignificant to the arrangement as a whole, still, the definition of investment property is met. However, in this situation also, there should be no intention of *subsequently* using the property as owner-occupied property. If there is such an intention (viz., to subsequently use the property as owner-occupied property), it means that the property is held for *an additional purpose* other than to earn rentals or for capital appreciation or both in which case the definition of investment property is not met (See BC paragraph 179 of IFRS 16, reproduced above). On the other hand, if the services provided are significant to the arrangement as a whole, the property does not meet the definition of investment property (see paragraphs 11 to 14 of Ind AS 40 and BC paragraphs of IAS 40 reproduced above). The concept of significance involves judgement.

17. From the above, the Committee is of the view that in the extant case, if the sublease is assessed as operating lease, then, the Company should examine whether it provides any services to lessees/licensees in connection with the arrangement. Thus, if the Company provides ancillary services to the lessees/licensees which are insignificant to the arrangement as a whole (or does not provide any services to the lessees/licensees), the ROU asset should be classified as investment property, provided the underlying asset is not held with the intention of *subsequent use* as owner-occupied property, such as, use for administrative purposes or for enhancement of the MRTS project. If there is any such intention, the ROU asset should be classified as such and not as investment property. Further, if the services provided to lessees/licensees are significant to the arrangement as a whole, the ROU asset should be classified as such and not as investment property.

18. With regard to querist's reliance on paragraph 10 of Ind AS 40 in relation to permissibility/impermissibility of classification of distinct portions of same property as owner-occupied property and investment property, the Committee notes that a project may consist of several assets or project itself may be a single asset, depending on the facts and circumstances. The Committee is of the view that for accounting purposes, in the extant case, ROU assets themselves are separate units of account. This is because they are separately identifiable assets. The underlying assets are held for earning rentals by subleasing. Therefore, the Committee is of the view that paragraph 10 of Ind AS 40 is not relevant in the extant case. Further, with regard to the querist's reliance on paragraph 7 of Ind AS 40 in relation to interdependency of cash flows, the Committee notes that paragraph 7 of Ind AS 40 itself acknowledges that rental cash flows are largely independent cash flows. Accordingly, the Committee is of the view that rental cash flows from subleasing the land parcels should be considered as cash flows generated by the ROU assets largely independently of other assets held by the Company. This is because rental cash flows directly arise from subleasing the land parcels. The factors mentioned by the querist in paragraph 5 above indicate that both the Company and the lessees/licensees have economic incentive to enter into the lease/license agreement (in addition to the mandatory requirement for the Company). They do not, however, alter the fact that rental cash flows from subleasing the land parcels are largely independent cash flows. The mandatory requirement of

property development and the fact that property development is a source of partly financing the project are not relevant in this regard.

Further, relying on paragraph 9 read with paragraph 5 of Ind AS 40, the querist has argued that the properties that are used in, or are integral to, the supply of services, and form part of the entity's operating activities, fall outside the scope of Ind AS 40; and that real estate is one of the major business activities of the Company and is a separately monitored operating segment which is also disclosed in accordance with Ind AS 108. The Committee wishes to point out that what is relevant is the extent of services, if any, to the *lessees/licensees* in connection with the arrangement (see paragraphs 16 and 17 above) and not any relationship of property development by the lessees/licensees with the MRTS project or the fact that real estate is one of the major business activities of the Company (as per the querist).

D. Opinion

19. On the basis of the above and subject to statements and presumptions in paragraphs 14 and 15 above, the Committee is of the following opinion on the issues raised by the querist in paragraph 13 above:

(i)&(ii) The Company should first assess the nature of the sublease of land parcels by reference to the ROU asset arising from the head lease (and not land parcels themselves) in accordance with Ind AS 116. If the sublease is assessed as a finance lease, then the ROU asset should be derecognised and net investment in the sublease should be recognised. In this situation, Ind AS 40 is not applicable. If the sublease is assessed as operating lease, the ROU asset should be classified as investment property only if (a) the Company provides services to the lessees/licensees which are insignificant to the arrangement as a whole (or does not provide any services to the lessees/licensees) *and* (b) there is no intention of *subsequent use* of the underlying asset as owner-occupied property; otherwise, the ROU asset should be classified as such.

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