REALpac
Real Property Association of Canada
Association des biens immobiliers du Canada

November 24, 2009

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: Exposure Draft Improvements to IFRSs (ED/2009/11)

Dear Sir/Madam:

We are pleased to submit this comment letter on the IASB's exposure draft of Improvements to IFRSs (ED/2009/11). We are submitting these comments on behalf of the following real estate organizations which collaborate as members of the Real Estate Equity Securitization Alliance (REESA):

Asian Public Real Estate Association (APREA)
British Property Federation (BPF)
European Public Real Estate Association (EPRA)
National Association of Real Estate Investment Trusts (NAREIT)®
Property Council of Australia (PCA)
Real Property Association of Canada (REALpac)

Members of the REESA organizations identified above would be pleased to meet with the Board or its staff to discuss any questions regarding our comments.

We thank the IASB for this opportunity to comment on the proposal. Please contact Teresa Neto, REALpac's Vice President, Financial Reporting at tneto@realpac.ca or 1 (416) 642-2700 ext. 226 if you would like to discuss our comments.

Respectfully submitted,

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Real Property Association of Canada

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Comment Letter Submitted by the

Real Property Association of Canada

On Behalf of the following Organizations:

Asian Public Real Estate Association (APREA)
British Property Federation (BPF)
European Public Real Estate Association (EPRA)
National Association of Real Estate Investment Trusts (NAREIT)® (U.S.)
Property Council of Australia (PCA)
Real Property Association of Canada (REALpac)

In response to the

Exposure Draft

Improvements to IFRSs (ED/2009/11)

Issued by the International Accounting Standards Board

August 2009

November 24, 2009

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: Exposure Draft Improvements to IFRS (ED/2009/11)

Dear Sir/Madam:

The undersigned real estate organizations welcome this opportunity to respond to the request for comments from the International Accounting Standards Board (IASB or Board) on the proposed amendments included in the Exposure Draft of *Improvements to IFRSs* (the Exposure Draft). The undersigned organizations, which are all members of REESA, represent publicly traded real estate companies and Real Estate Investment Trusts (REITs) around the world. Our members are real estate companies and other businesses that develop, own, operate and finance investment property, as well as those firms and individuals who advise, study and service those businesses.

The purpose and activities of REESA are discussed in Appendix 1.

We are providing our comments on two amendments which we feel will have an impact on the real estate investment and development industry. We have clearly identified the questions for which we are providing comments.

Comments

1. IAS 34 – *Interim Financial Reporting*

Question 3
The Board proposes change to IAS 34 Interim Financial Reporting *to emphasise its disclosure principles. It also adds to the guidance to illustrate better how to apply these principles. The Board published an exposure draft* Fair Value Measurement *in May 2009. In that exposure draft, the Board proposes that all of the fair value measurement disclosures required in IFRS 7* Financial Instruments: Disclosures *for annual financial statements should also be required for interim financial statements.*

Do you agree that this proposed amendment is likely to lead to more useful information being made available to investors and other users of interim financial reports? If not, why? What would you propose instead and why?

REESA does not support the proposed amendments to IAS 34. We believe that the proposed amendments to require specific disclosures (as those being proposed for fair value measurement disclosures required in IFRS 7) represent a departure from the important underlying principle of IAS 34 that disclosures focus on only those items that are significant to understanding the interim financial statements. The proposed approach creates an exception for financial instruments and this is inconsistent with the principles of IAS 34 where all significant changes in assets and liabilities need to be considered. It is our view that by mandating particular interim disclosures, the Board risks obscuring those significant items and issues that an entity wishes to communicate, and that the users of the entity's accounts wish to be informed about, in the interim financial statements.

We understand that the proposal to require interim disclosure of fair value measurements of financial instruments in accordance with IFRS 7 arises in part as a result of the volatility in the current economic climate. As such, we believe that one of the primary purposes of interim disclosure should be to provide users with current information on liquidity and other risk management items (credit and market risks) rather than focusing on quantitative changes in the fair value of financial instruments. As highlighted below, requiring IFRS 7 interim disclosures of the fair value of financial instruments does not achieve this objective.

Elements of IFRS 7 disclosures provide limited useful information during interim periods where an entity prepares financial statements on the going concern assumption. An example of this is the requirement for entities that carry financial instruments at amortized cost to calculate the fair value of all their financial assets and financial liabilities on an interim basis when such fair value will never be realized. Mandating the preparation of this information on an interim basis will create an unnecessary and disproportionate burden in that the data is not useful information in circumstances where the preparer is not required to liquidate. The exercise becomes nothing more than a mechanical computation updating measurements for changes in market variables. Further we note that IAS 34 disclosures do not require a note updating an entity's capital management strategy for interim reporting. This appears to contradict the objective the Board is trying to achieve of providing investors and other users with more useful information about an entity's financial health and flexibility in the interim financial statements.

Rather than require the IFRS 7 interim disclosure of fair values of financial instruments, consideration should be given to whether it is more useful to require a reconciliation of the movement in financial assets and financial liabilities including details with respect to maturities, new borrowings (advances), assumptions, repayments, etc. during interim periods so that users can bridge the information reported in the annual financial statements.

We suggest that instead of requiring entities to report interim IFRS 7 fair value disclosures, the Board consider identifying the specific objectives it wishes to achieve in interim disclosure. It is our view that the requirement for interim IFRS 7 fair value disclosures would not provide users with useful information relating to liquidity, credit and market risks during interim periods.

With respect to the specific amendments proposed for IAS 34, we request further clarity on the intent and meaning of "equivalent information" of proposed paragraph 15. This term is different, and therefore may have a different meaning, than that used in proposed paragraph 15C that states "relevant information" should be updated. In either case, the information may be the same. In addition, should a significant interim event occur subsequent to the date of the most recent annual report, it is possible that no such equivalent information would exist.

Lastly, as a more general comment, for quarterly issuers (largely the North American market) the time period between reporting periods is short and generally results in only moderate to little volatility to financial statements. The position of such entities should be considered when addressing amendments to interim financial statements.

2. IAS 40 – *Investment Property*

Question 5
The Board proposes to amend IAS 40 Investment Property *to remove the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale, to add a requirement for investment property held for sale to be displayed as a separate category in the statement of financial position and to require disclosures consistent with IFRS 5* Non-current Assets Held for Sale and Discontinued Operations. *Do you agree that the proposed amendment should be included within* Improvements to IFRSs *or should a separate project be undertaken to address this issue? If you believe a separate project should be undertaken, please explain why.*

REESA would like to request further clarity on the proposed amendments to IAS 40.

The proposed amendment to paragraph 57 (deletion of item 57(b)) suggests that, once a property has been classified as an investment property, it can never be reclassified as a property developed for sale in the ordinary course of business, i.e. transferred to inventory property. However, in paragraph 60, the wording suggests that investment property carried at fair value may be transferred to inventories. In fact, we fail to see the amended wording of paragraph 60 in the Exposure Draft. There appears to be a contradiction here.

If it is the intent that once a property is classified as investment property, it can no longer be reclassified, this will impact how land purchased by certain entities for future development (sometimes referred to as "land banks") are initially classified by management. If an entity purchases land for a currently undetermined future use, this land is classified as investment property per paragraph IAS 40.8(b). Under the proposed amendment, should the entity later decide that the land will be developed with the intent to sell in the ordinary course of business, the project will be considered investment property under construction and IAS 40 continues to apply. However, had the entity originally classified the land as inventory, the property would be developed with an intent to sell and treated as inventory property where IAS 2 applies. This results in two different accounting treatments (i.e. measurement of the property) for essentially the same asset. There are also different revenue, profit and tax consequences when selling investment property versus inventory property.

Further, additional clarity is needed around proposed paragraph 58A addressing when IFRS 5 is to be applied to investment property and to explain how this paragraph relates to investment property measured at cost addressed in paragraph 56.

Lastly, we do not believe this matter should be undertaken as a separate project. What is needed is greater clarity from the Board regarding the proposed amendments to IAS 40 so that we may better understand the intended changes to the standard.

We thank the IASB for this opportunity to comment on the Exposure Draft. Please contact Teresa Neto, REALpac's Vice President, Financial Reporting at tneto@realpac.ca or 1 (416) 642-2700 ext. 226 if you would like to discuss our comments.

Respectfully submitted,

Asian Public Real Estate Association, (APREA)
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APPENDIX I

REESA – The Real Estate Equity Securitization Alliance

The real estate industry has responded positively to the challenges presented by the developments in the global economy and, in particular, the global real estate markets. Collectively the organizations in REESA are responsible for representing a large proportion of the global real estate market. The benefits of collaboration on a global scale are increasingly valuable on major industry issues such as the sustainability of the built environment, tax treaties, corporate governance and research.

The formation of REESA was, in part, a direct response to the challenge and opportunity presented by the harmonization of accounting and financial reporting standards around the world. Given the size and importance of the real estate industry, our view is that there are considerable benefits to be gained by both accounting standard setters and the industry in developing consensus views on accounting and financial reporting matters, as well as on the application of accounting standards. Associations represented thus far in the alliance include:

- Asian Public Real Estate Association, APREA
- British Property Federation, BPF
- European Public Real Estate Association, EPRA
- National Association of Real Estate Investment Trusts, NAREIT®
- Property Council of Australia, PCA
- Real Property Association of Canada, REALpac
- Association for Real Estate Securitization (Japan), ARES

Since its formation REESA members have exchanged views on a number of tax and accounting related projects and shared these views with regulators and standards setters. These projects include:

- Financial Statement Presentation
- Reporting Discontinued Operations
- Real Estate Sales – IFRIC D21
- Capitalization of Borrowing Costs - IAS 23
- Accounting for Joint Arrangements – ED 9
- Consolidated Financial Statements – ED 10
- IASB 2007/2008 Annual Improvements to IFRS
- FASB/IASB Leasing project
- FASB/IASB Revenue Recognition Project
- Income Tax
- Fair Value Measurement
- OECD developments on cross border real estate flows and international tax treaties

Asian Public Real Estate Association
Singapore

British Property Federation
United Kingdom

European Public Real Estate
Association
Belgium

National Association of
Real Estate Investment Trusts
United States

Property Council of Australia
Australia

Re
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Property Association of Canada
Canada