



13 December 2011

Mr Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom

Submitted via [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

Dear Mr Hoogervorst

### **IASB Agenda Consultation 2011**

Thank you for the opportunity to comment on the International Accounting Standards Board's Agenda Consultation.

This submission is provided on behalf of the Real Estate Equities Securitisation Alliance (REESA), which includes the following real estate organisations:

1. Asia Pacific Real Estate Association (APREA)
2. British Property Federation (BPF)
3. European Public Real Estate Association (EPRA)
4. National Association of Real Estate Investment Trusts (NAREIT)<sup>®</sup> (U.S.)
5. Property Council of Australia (PCA)
6. Real Property Association of Canada (REALpac).

The purpose and activities of REESA are discussed in Appendix 1. One of the major goals of REESA is to enhance the comparability of financial information between real estate companies worldwide.

We commend the IASB for conducting its first formal public agenda consultation. This will enhance the effectiveness of the IASB and ensure there is a focus on the relevant issues for both preparers and users of financial statements.

The **Voice** of Leadership

Property Council of Australia – Level 1, 11 Barrack Street, Sydney  
Phone: 02 9033 1900 Fax: 02 9033 1966 ABN 13 008 474 422



REESA recommends that:

1. The IASB's strategic priority must continue to be the development of a comprehensive set of principles based high quality financial reporting standards. The Board should increase its focus on reducing the complexity of financial reporting.
2. Priority be given to finalising the revenue, leasing (including consequential amendments to IAS 40 *Investment Property*) and financial instrument projects before further projects are undertaken. Thereafter, it is critical to slow the rate of change to allow for a period of calm.
3. Strategic areas of focus in the short to medium term (1 to 2 years) include:
  - a. Performing timely post implementation reviews.
  - b. The development of a clear framework for disclosures.
  - c. The establishment of a dedicated research network.
4. Priorities within the real estate industry include:
  - a. Investment properties and the need to ensure that the unique business and economic characteristics of companies that own and operate income producing real estate are considered in standard setting by the IASB.
  - b. Simplifying financial statement presentation and disclosures by developing a disclosure framework and refining disclosures in existing standards.
  - c. Standards for financial instruments with characteristics of equity and equity method of accounting.

We congratulate the IASB in its recent outreach efforts and encourage the IASB to increase these efforts for financial standards users. We also urge the IASB to provide greater transparency on these discussions and their impact on the development of the final standard.

We support IASB strategies to develop close working relationships with global regulators to ensure that developments in accounting standards do not contradict or diverge from other related regulation. The IASB should aim to leverage synergies that exist between standard setters and regulators.

Attached is our submission which sets out our detailed comments on the Agenda Consultation 2011.

Members of the organisations identified above are keen to meet with the Board or its staff to discuss any questions regarding our comments.

Please contact Darren Davis [ddavis@propertyoz.com.au](mailto:ddavis@propertyoz.com.au) or myself if you would like to discuss our comments.

Kind regards

A handwritten signature in black ink, appearing to read 'AM', with a long horizontal flourish underneath.

**Andrew Mihno**  
**Executive Director International & Capital Markets**  
**Property Council of Australia**

***Email: [amihno@propertyoz.com.au](mailto:amihno@propertyoz.com.au)***

**Comment Letter Submitted by the Property Council of Australia**

**On behalf of the Real Estate Equities Securitisation Alliance (REESA)  
which includes the following organisations:**

**Asia Pacific Real Estate Association (APREA)**

**British Property Federation (BPF)**

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(U.S.)**

**Property Council of Australia (PCA)**

**Real Property Association of Canada (REALpac)**

**In response to the**

**IASB Agenda Consultation**

## **Detailed Comments and results of REESA Survey**

We welcome the opportunity to submit comments on the IASB Agenda Consultation 2011.

To assist us in responding to the IASB we undertook a survey of REESA members to identify:

1. The highest strategic priorities that REESA members believe the IASB needs to address.
2. The issues/topics that the IASB should focus on over the next few years.
3. Other matters that members believe are important for the IASB to review.

The results are contained below.

### **Question 1**

**What do you think should be the IASB's strategic priorities, and how should it balance them over the next years?**

The IASB identified five strategic areas which will drive its work plan over the next few years. We agree with the two categories identified and five strategic areas within them. However, priority should be given to certain areas in the short to medium term.

REESA members were asked to identify the most important strategic priorities from within the set choice of five identified by the IASB. The responses received were as follows:

<b>Strategic priority</b>	<b>%<sup>1</sup></b>
The conceptual framework including a presentation and disclosure framework	<b>42</b>
Researching strategic issues for financial reporting.	<b>55</b>
Standards-level projects	39
Post-implementation reviews	<b>60</b>
Responding to implementation needs	27
Other (please specify)	

<sup>1</sup>Calculated as the number of responses for that strategic priority divided by the total number of responses

Importantly, our members indicated in their commentary that reducing the complexity of financial reporting should be a priority for the IASB. This will provide more useful information for users and ease the burden of compliance for preparers.

The lack of stability in the standard setting process, the volume of changes made to existing standards and the substantial changes proposed to financial reporting in 2013 and again in 2015, contributes to the view that financial statements have become overly complex and are losing their usefulness.

We therefore recommend that the IASB complete the existing Memorandum of Understanding Projects, specifically, revenue, leases (including consideration of changes to IAS 40 *Investment Property*) and financial instruments. Thereafter, it is critical to slow the rate of change (“the less done the better”) to allow for a period of calm prior to any further substantial changes.

As can be seen from the table above, our members indicated the following top three priorities aimed at reducing complexity and improving financial reporting:

- Post implementation reviews.
- The conceptual framework, including a presentation and disclosure framework.
- Researching strategic issues for financial reporting.

#### *Post implementation reviews*

Implementing and responding to the changes in 2013 and 2015 will be a significant challenge for both preparers and users of financial standards and will come at significant cost. It is therefore important that the IASB is able to review and address issues arising from implementation quickly.

The focus of these reviews should also consider whether the IASB has provided sufficient examples and implementation guidance. This will assist in improving the quality of financial reporting and reduce divergence from the intended objectives of the standards.

#### *A disclosure framework*

Extensive disclosure requirements contribute to the complexity of financial reports. While current standards contain extensive disclosure requirements, we are particularly concerned that the new standards being proposed are increasing the extent of disclosures required to the detriment of useful and cost effective financial reporting.

Many preparers struggle with the application of materiality guidelines to financial reporting disclosures and therefore adopt an approach of including all required disclosures with limited consideration of their relevance or applicability. This results in financial reports which, whilst voluminous and compliant, do not necessarily provide the users with information that is relevant for decision making purposes.

It is therefore extremely important that the IASB focus on developing a framework for financial reporting disclosures that is easy to understand.

## Research

Investing in research will assist in easing the IASB's burden, ensure focus on the most important areas of financial reporting, provide the IASB with an understanding of the impact of changes in the economic environment on financial reports and assist in performing impact analyses.

We therefore support the IASB establishing a dedicated research team focussed on defining research activities and coordinating a global research network of national and regional standard setters, analysts and academics.

We commend the IASB on the recent effects analyses performed in connection with the issue of the new Consolidation and Joint Venture Standards. However, we recommend that such analyses are performed as part of developing the exposure drafts rather than after the standards have been issued. This can be coordinated by the dedicated research team and will assist in enhancing the IASB's understanding of the costs and benefits of proposed changes.

### Question 2

**What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?**

REESA members were provided with a list of topics relevant to the real estate industry and asked to identify the topics that the IASB should focus on. The topics were taken from the list contained in Appendix C of the IASB Agenda Consultation 2011. The responses received were as follows:

Topics	% <sup>1</sup>
Investment property	62
Business combinations between entities under common control	29
Discount rates	9
Emissions trading schemes	3
Equity method of accounting	32
Classification of instruments as debt or equity	35
Financial statement presentation (continuation of existing project)	41
Presentation and disclosure framework to establish disclosure principles	29
Presentation and disclosure standard to refine and reduce existing disclosures	50
Other comprehensive income	6

<sup>1</sup>Calculated as the number of responses for that topic divided by the total number of responses

The priority topics identified from the above can be summarised as follows:

- Investment properties and real estate companies.
- Simplifying financial statement presentation and disclosures through development of a disclosure framework and refining disclosures in existing standards (refer to comments under question 1).
- Financial instruments with characteristics of equity.
- Equity method of accounting.

#### *Investment properties and real estate companies*

The high response rate to “investment property” in the table above is driven by two main concerns:

- The pending impact of the leasing proposals and related consequential amendments in relation to recognition of income.
- The need to ensure that the unique business and economic characteristics of companies that own and operate income producing real estate are considered in standard setting by the IASB.

From time to time, accounting standard setters (both national and international), develop accounting for these real estate companies that do not recognise these unique business and economic characteristics. A very important exception to this is IAS 40. This standard clearly recognises the unique financial reporting needs of industry investors and analysts.

More recently, however, the FASB and IASB have initially not recognised the uniqueness of these real estate companies and the needs of their financial statement users. This has been the case for the joint leases standard, the IASB's investment entity standard and the FASB's investment property entities and investment companies standard.

After the industry met with the IASB and FASB a number of times over several years to provide an understanding of the business and economic characteristics of these real estate companies, the Boards' current conclusions for the Leases standard fully recognise these characteristics.

The industry faces similar issues for the investment companies / investment property entities standards being developed by the Boards. REESA therefore recommends that the IASB take into account the unique business and economic characteristics of real estate companies and the financial reporting needs of their investors and industry analysts.

#### *Financial instruments with characteristics of equity*

A number of practical issues arise within certain types of property vehicles regarding the classification of units as debt or equity. We recommend that the IASB focus its efforts on addressing these issues through a narrow scope review.



### *Equity method of accounting*

As a result of having been issued many years ago, the conceptual basis of equity accounting is no longer clear. This is an area in which the IASB should conduct research to determine the need and purpose of equity accounting.

### **Other comments**

#### *Outreach activities*

Conducting outreach with interested parties is critical to the development of financial reporting standards. We commend the IASB for its significantly increased outreach efforts and recommend that this continues. We would however encourage more outreach with users rather than academics. We also recommend that the IASB provide greater transparency regarding how the parties involved in targeted outreach are selected, who the parties are, the issues discussed, the outcome of the discussions and how the discussions are factored into the development of the final standard.

#### *Increased financial regulations and the need to coordinate with regulators*

Companies are in the middle of an unprecedented period of regulatory development as global markets respond to the ongoing financial crisis. In many cases, there are overlapping and complementary initiatives between the IASB/FASB and other global financial regulators (such as the European Commission) to address the financial crisis.

Much of the regulation being developed is focussed on improving and harmonising the supervision and prudential oversight of particular sectors. There are obvious connections between this objective and that of the IASB and FASB to govern and improve the usefulness of financial information to users of financial statements.

We would urge the IASB to:

- Devote resources to examining the relationship and synergies between its standards and the new regulations being developed by global regulators like the European Commission.
- Ensure that developments in accounting standards do not contradict or diverge from other related regulation, or create unnecessary duplication of efforts on the part of the businesses that are the subject of the new regulation and reporting standards.
- Work closely with global regulators to share expertise, sector knowledge and best practice to play a more prominent role on regulatory developments, particularly given the existing role the Boards are playing in leading the harmonisation of global financial reporting standards.

Examples of related regulations include:

- The increasing requirements to fair value assets (e.g real estate) under the EU AIFM Directive and other Directives and the development of fair value reporting by the IASB/FASB.

- Drawing the appropriate boundaries between what is a 'fund' for the purposes of the Alternative Investment Fund Managers Directive (AIFMD) and the development of a standard for 'Investment Entities' by the IASB/FASB.
- Drawing the appropriate boundary between derivatives used for commercial hedging of risk and speculative derivatives transaction under the European Markets Infrastructure regulation (EMIR) and Dodd Frank the IFRS rules relating to hedge accounting.
- Potential impacts of the new leasing proposals on regulatory capital requirements.



**Asia Pacific Real Estate Association  
(Singapore)**



**British Property Federation  
(United Kingdom)**



**European Public Real Estate Association  
(Belgium)**



**Real Property Association of Canada  
(Canada)**



**National Association of  
Real Estate Investment Trusts  
(United States)**



**Property Council of Australia  
(Australia)**

## Appendix 1

### REESA – The Real Estate Equity Securitization Alliance

REESA is made up of seven real estate organizations around the world grounded in one or more facets of securitized real estate equity. REESA's broad mission is to improve the opportunities for investment in securitized real estate equity around the globe. The REESA member organizations are:

- Asia Pacific Real Estate Association, APREA
- Association for Real Estate Securitization in Japan, ARES
- 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

REESA has responded positively to the challenges presented by the developments in the global economy and, in particular, the global real estate markets. 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.

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

- FASB/IASB Lease Accounting
- FASB/IASB Investment Property
- FASB/IASB Financial Statement Presentation
- FASB/IASB Reporting Discontinued Operations
- FASB/IASB Revenue Recognition
- FASB/IASB Effective Dates and Transition Methods
- IASB Fair Value Measurement
- IASB Income Tax
- IASB Real Estate Sales – IFRIC D21
- IASB Capitalization of Borrowing Costs – IAS 23
- IASB Accounting for Joint Arrangements – ED 9
- IASB Consolidated Financial Statements – ED 10
- IASB 2007/2008/2009 Annual Improvements to IFRS
- OECD developments on cross border real estate flows and international tax treaties