APREA

July 24, 2009

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

Re: Exposure Draft: Income Tax

Dear Sir/Madam:

We are pleased to submit this comment letter on the International Accounting Standards Board's (IASB) *Exposure Draft: Income Tax*. We are submitting these comments on behalf of the Real Estate Equity Securitization Alliance (REESA), which includes the following real estate 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)

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

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

We thank the IASB for the opportunity to comment on the Boards' Exposure Draft. Please contact Andrew Read, co-ordinator of APREA's Accounting and Financial Reporting Committee, at Andrew.Read@langhamhall.com or +852 8191 1969 if you would like to discuss our comments.

Respectfully submitted,

PETER MITCHELL
Chief Executive Officer

Asian Public Real Estate Association
13 Amoy Street #02-01 Far East Square Singapore 049955
Tel +65 6438 1110 Fax +65 6438 5550 www.aprea.asia

Comment Letter Submitted by the

Asian Public Real Estate Association

On behalf of the Real Estate Equity Securitization Alliance, which includes 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.)
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In response to the

Exposure Draft

Income Tax

Issued by the International Accounting Standards Board

March 2009

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

Re: Exposure Draft: Income Tax

Dear Sir/Madam:

Introduction

The undersigned real estate organizations welcome this opportunity to respond to the request from the International Accounting Standards Board (IASB or the Board) for comments on Exposure Draft ED/2009/2 *Income Tax* (the ED). The undersigned organizations 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 I.

One of the major goals of REESA is to enhance the comparability of financial information between real estate companies worldwide. We, therefore, applaud the Board for working towards the improvement of consistency in accounting for Income Taxes.

Our response to this exposure draft has been relatively focused and is summarised below. As a general point we would question whether the thrust of the ED is consistent with the "principles based" philosophy regularly espoused in relation to International Financial Reporting Standards (IFRS). The ED would appear to be attempting to place some narrow parameters around a topic that is approached and applied very differently in each jurisdiction around the world. In our view these extensive jurisdictional differences necessitate more flexibility within an accounting standard dealing with income taxes than perhaps most others.

In addition to that general point, we have identified five areas within the proposals which are of particular concern for the real estate industry namely:

- The requirement to determine the tax basis based on a recovery through sale
- The removal of the initial asset exemption
- The proposal for uncertain tax positions
- The disclosure requirements for entities not subject to income tax because their income is taxed directly to their owners
- The inability to consider the tax outcome based on the sale of a subsidiary

We have outlined our concerns with each of these areas below and have also included specific responses to the questions raised in the ED at the conclusion of this letter.

1. The requirement to determine the tax basis based on a recovery through sale

While we understand the Board's desire to create greater consistency through the removal of management's intention from determination of the tax basis, we question whether any greater consistency is achieved through the current proposal. It is common in the real estate industry in many jurisdictions for different tax outcomes to accrue to the use or sale of a real estate asset. This may occur due to either a different tax basis determination for use or sale, a different tax rate applying on use or sale, or both.

Under the current proposals, where the tax basis is the same whether the asset is used or sold but the tax rate varies, management's intention as to how the asset will be recovered is still considered in determining the tax rate to be applied. Conversely, if the tax rates are the same whether the asset is used or sold but the tax basis is different, an entity must apply the sale tax basis in determining the related tax balances.

This would mean that similar economic outcomes from a tax perspective will be accounted for differently depending on the manner in which the taxing authority in a particular jurisdiction chooses to achieve that tax result. We do not believe this leads to greater consistency in financial reporting. While open to some subjectivity, we believe the determination of tax positions based on management's intention of how the asset will be recovered is likely to provide a more meaningful assessment of the likely tax position of a real estate entity given the considerable variability in potential outcomes.

2. Removal of the initial asset exemption

REESA has considerable reservations about these proposed changes.

While we again recognize the Board's aim to remove some conceptual anomalies from the accounting for income taxes, we would strongly question the cost/benefit of the current proposal. Real estate is an industry where, due to the structure of some asset acquisitions, notional embedded tax liabilities have little impact on market prices. The exemption under the existing standard worked well in recognizing that position and we therefore see no compelling reason for it to be removed.

The proposal in the ED appears overly complex and will be difficult to operationalize with no discernible change in the net accounting outcome. The requirement to recognize the carrying amount of an asset or liability based on general, non-entity specific tax effects, will be virtually impossible to estimate and offer no new information to users. We question whether the proposed change adds anything to meaningful financial reporting and therefore cannot support these proposed changes.

3. Proposal for uncertain tax positions

REESA strongly disagrees with these proposals. Firstly we are not convinced that there really exist commercial problems which necessitate a solution through these provisions. In other words, we believe that organizations have adequately addressed uncertain tax positions under the existing standard and therefore these provisions are probably unnecessary.

Our second comment is that we have major doubts about the feasibility of the proposed scheme. There is an intrinsic commercial conflict in disclosing (through the probability assessment) worse-case views of tax liabilities whilst at the same time negotiating with the tax authorities. We believe this could be to the net detriment of shareholders. We also note that this approach to valuing claims is not used elsewhere in the balance sheet (e.g. for legal liabilities), and it may be unrealistic to expect reporting entities to adopt different approaches to accounting for claims in different areas. From a technical point of view, under this approach the disclosed amounts will never coincide with the actual outcome, because of the effect of the distribution (e.g. 99% x $100,000 + 1% x $1,000,000 = $109,000 - which is 'different' either way). Weighted average is also not consistent with the US GAAP approach. If the Board decides that specific guidance on uncertain tax positions is warranted, we would suggest that rather than a weighted average model, the Board adopt a recognition threshold which requires an entity to first consider whether each tax position is more likely to be sustained before moving to a measurement requirement. This would be more consistent with the recognition threshold applied to deferred tax assets.

We believe that considerable caution is called for on this topic. These proposals appear aimed at advancing consistency with US GAAP, however, we note that the weighted average approach is not consistent with US GAAP and therefore question the benefit of adopting changes that will not achieve that consistency. More broadly, we note that in the US the provisions implemented for uncertain tax positions have arguably proved quite unsatisfactory and are in fact still not implemented for non-public companies due to a thrice repeated deferral. We would therefore question the benefits of moving towards such a model.

Overall REESA's strong view is that these proposals should not be adopted.

4. The disclosure requirements for entities not subject to income tax because their income is taxed directly to their owner

It is common in many jurisdictions for real estate to be held in entities that maintain a "flow through" status for tax purposes (i.e. any tax arising on the operation of the real estate is taxed in the hands of the beneficial owner). This is achieved either through an automatic allocation to owners (e.g. some partnership structures) or through the maintenance of particular distribution and other requirements (e.g. many of the REIT regimes around the world). These distribution and other requirements via which REIT legislations achieve this "flow through" status also vary considerably by jurisdiction. For example, some, while prima facie taxable, permit REITs to take a deduction for dividends paid whereas others will not impose a tax on the REIT provided certain distribution thresholds are met. There are also a myriad of limitations on types of income, types of assets and debt levels – again particular to the taxing regime of the REIT.

As an initial point we would suggest the Board clarify whether this provision is intended to apply to entities such as REITs which are not taxable only by virtue of their compliance with various legislative requirements and distribution thresholds, or merely to those entities on which under no circumstance income tax would be levied on that entity.

Leaving aside that need for clarification, in our view the proposal to disclose the aggregate difference between the tax bases and the carrying amounts of the entity's assets and liabilities will add a considerable cost burden to non taxable entities without providing a meaningful enhancement to financial reporting. While these entities will necessarily maintain tax basis information, inclusion of such a disclosure will require this information to be subject to audit at a level not currently required.

Apart from the cost burden, we would question whether this disclosure adds to meaningful disclosure and in fact believe it may lead to the disclosure of information that is misleading. The tax status of different owners in any such entity can vary greatly and as outlined in point 1 above and point 5 below, the actual tax outcomes within the entity may vary significantly from the tax accounting requirements outlined.

5. The inability to consider the tax outcome based on the sale of a subsidiary

We appreciate the clarification by the Board as to whether the tax outcome to be recorded can be based on the sale of an asset holding subsidiary or must be based on the sale of the underlying asset. This has been an area of considerable debate within the real estate industry. We would note, however, that this position is difficult to glean from the proposed standard itself without reference to the supporting examples and basis for conclusions and would suggest this could be more clearly articulated within the body of the proposed standard.

While the clarification is important, we believe the Board's conclusion that the tax position must be based on the sale of the asset by the subsidiary leads to less meaningful financial reporting for real estate entities. In many jurisdictions, ownership structures for real estate involving asset specific subsidiaries are commonplace and the method of disposal (i.e. asset or asset owning entity) can substantially impact the tax result. As such, in those jurisdictions the disposal of the asset owning entity is the normal way in which real estate is transacted.

By precluding entities from taking this fact into account in determining their tax position the standard applies a “form over substance” approach which results in the recognition of tax positions far removed from the economic realities of the market place. This approach would also seem inconsistent with the exemption proposed for foreign subsidiaries. We would suggest that a preferable approach would be to enhance disclosures as to the approach taken by management in determining the tax position and the potential impact of recovery via an alternative method.

Outlined below are our responses to the specific questions raised in the ED.

Question 1 - Definitions of tax basis and temporary difference
The exposure draft proposes changes to the definition of tax basis so that the tax basis does not depend on management's intentions relating to the recovery or settlement of an asset or liability. It also proposes changes to the definition of a temporary difference to exclude differences that are not expected to affect taxable profit. (See paragraphs BC17–BC23 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not?

As noted above, REESA recognizes the motivation behind these proposals and their relevance to the real estate industry. Reference to the intentions of managers of real estate investment funds may create a lack of consistency between managers, and even for a single manager over time.

However, we are not convinced that the proposals will result in a straightforward outcome. Mismatches will still occur - for example, where the recovery of an asset is through revenue but its tax basis is sale. Also we believe that intentions are important, and should still be a primary matter in accounting treatment. We note that a pragmatic alternative along these lines (as currently employed with IAS12) is to notionally split the asset into full use and residual value components, and then consider the temporary differences.

Further, we note that US GAAP does not currently define the tax basis, and our understanding is that the interpretation in practice under US GAAP is not always the sale basis.

Question 2 – Definitions of tax credit and investment tax credit

The exposure draft would introduce definitions of tax credit and investment tax credit. (See paragraph BC24 of the Basis for Conclusions.) Do you agree with the proposed definitions? Why or why not?

We support these definitions, but feel more guidance from the IASB would be helpful, especially on the topic of the interplay of investment tax credits and government grants.

Question 3 – Initial recognition exception

The exposure draft proposes eliminating the initial recognition exception in IAS 12. Instead, it introduces proposals for the initial measurement of assets and liabilities that have tax bases different from their initial carrying amounts.

Such assets and liabilities are disaggregated into (a) an asset or liability excluding entity-specific tax effects and (b) any entity-specific tax advantage or disadvantage. The former is recognised in accordance with applicable standards and a deferred tax asset or liability is recognised for any temporary difference between the resulting carrying amount and the tax basis. Outside a business combination or a transaction that affects accounting or taxable profit, any difference between the consideration paid or received and the total amount of the acquired assets and liabilities (including deferred tax) would be classified as an allowance or premium and recognised in comprehensive income in proportion to changes in the related deferred tax asset or liability. In a business combination, any such difference would affect goodwill. (See paragraphs BC25–BC35 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not?

As noted above, REESA believes that the proposals in this area will generate additional record keeping requirements but with little further impact over the current standard.

The requirement to disaggregate the asset or liability on its initial recognition where a temporary difference arises, into the asset or liability excluding any entity-specific tax effects will be virtually impossible to comply with. As noted throughout this submission the variability in tax outcomes for real estate transactions means the tax basis available to "market participants" in a transaction is not a readily available fact and will therefore require significant estimate and judgment to determine while providing little value to financial statement users.

We question the cost/benefit tradeoff of these proposals.

Question 4 – Investments in subsidiaries, branches, associates and joint Ventures

IAS 12 includes an exception to the temporary difference approach for some investments in subsidiaries, branches, associates and joint ventures based on whether an entity controls the timing of the reversal of the temporary difference and the probability of it reversing in the foreseeable future. The exposure draft would replace these requirements with the requirements in SFAS 109 and APB Opinion 23 Accounting for Income Taxes—Special Areas pertaining to the difference between the tax basis and the financial reporting carrying amount for an investment in a foreign subsidiary or joint venture that is essentially permanent in duration. Deferred tax assets and liabilities for temporary differences related to such investments are not recognised. Temporary differences associated with branches would be treated in the same way as temporary differences associated with investments in subsidiaries. The exception in IAS 12 relating to investments in associates would be removed. The Board proposes this exception from the temporary difference approach because the Board understands that it would often not be possible to measure reliably the deferred tax asset or liability arising from such temporary differences. (See paragraphs BC39–BC44 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not? Do you agree that it is often not possible to measure reliably the deferred tax asset or liability arising from temporary differences relating to an investment in a foreign subsidiary or joint venture that is essentially permanent in duration? Should the Board select a different way to define the type of investments for which this is the case? If so, how should it define them?

In relation to the ED as drafted, we support the inclusion of an exception for foreign subsidiaries. In large global groups there are significant problems in attempting to establish a reliable tax basis for all entities in the group. In our view the conditions to apply the exception are onerous and we therefore suggest the exception be extended to all foreign subsidiaries where the tax basis cannot be calculated reliably.

We also recommend that the exception be extended to domestic subsidiaries on a cost benefit basis. In a number of jurisdictions tax grouping/consolidation regimes mean that entities within a group do not prepare individual tax returns. Tax balances are generally calculated on a group basis and calculation of a tax basis for each subsidiary would generally be an arbitrary and costly exercise and may result in the recognition of a deferred tax balance that will never crystallize. We note that SFAS 109 *Accounting for income taxes* exempts domestic subsidiaries in certain circumstances.

Question 5 – Valuation allowances

The exposure draft proposes a change to the approach to the recognition of deferred tax assets. IAS 12 requires a one-step recognition approach of recognising a deferred tax asset to the extent that its realisation is probable. The exposure draft proposes instead that deferred tax assets should be recognised in full and an offsetting valuation allowance recognised so that the net carrying amount equals the highest amount that is more likely than not to be realisable against taxable profit. (See paragraphs BC52–BC55 of the Basis for Conclusions.) Do you agree with the recognition of a deferred tax asset in full and an offsetting valuation allowance? Why or why not? Do you agree that the net amount to be recognised should be the highest amount that is more likely than not to be realisable against future taxable profit? Why or why not?

REESA believes the current requirement to show a net deferred tax asset has worked effectively and does not see the need to amend the existing approach. However, if the amendments are to be implemented, we suggest that the current implementation guidance can be improved. The ED does and should support the use of judgment by the reporting entity, but to be consistent with this, the examples that are given in the ED could be reworded to make more explicit their status as suggestions rather than explicit rules.

REESA does not object to the recognition of highest amount that is more likely than not to be realizable against future taxable profit.

Question 6 – Assessing the need for a valuation allowance

The exposure draft incorporates guidance from SFAS 109 on assessing the need for a valuation allowance. (See paragraph BC56 of the Basis for Conclusions.) Do you agree with the proposed guidance? Why or why not? The exposure draft adds a requirement on the cost of implementing a tax strategy to realise a deferred tax asset. (See paragraph BC56 of the Basis for Conclusions.) Do you agree with the proposed requirement? Why or why not?

REESA requests more clarity on how to allocate tax credits used in valuation allowances. An example illustrates the potential for ambiguity that we see:

- There are 1,100 of tax losses which now are booked as a deferred tax assets (DTAs)
- Assume that 250 are classified as current (can utilize within 12 months) and the balance of 850 is non-current
- Assessing the overall balance of 1,100 of DTAs for valuation allowance, assume an allowance of 450 is judged as required.
- Should this amount of 450 be recorded against the non-current balances - which would seem to make sense given reasons for current estimate, OR, should it be allocated pro-rata between current and non-current balances?
- The outcome overall is the same, but the gross and net current and non-current balances may be different in each case

Question 7 – Uncertain tax positions

IAS 12 is silent on how to account for uncertainty over whether the tax authority will accept the amounts reported to it. The exposure draft proposes that current and deferred tax assets and liabilities should be measured at the probability-weighted average of all possible outcomes, assuming that the tax authority examines the amounts reported to it by the entity and has full knowledge of all relevant information. (See paragraphs BC57–BC63 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not?

REESA strongly disagrees with these proposals. Firstly we are not convinced that there really exist commercial problems which necessitate solution through these provisions. In other words, we believe that these provisions are probably unnecessary.

Our second comment is that we have major doubts about the feasibility of the proposed scheme. There is an intrinsic commercial conflict in disclosing (through the probability assessment) worse-case views of tax liabilities whilst at the same time negotiating with the tax authorities. We believe this could be to the net detriment of shareholders. We also note that this approach to valuing claims is not used elsewhere in the balance sheet (e.g. for legal liabilities), and it may be unrealistic to expect reporting entities to adopt different approaches to accounting for claims in different areas. From a technical point of view, under this approach the disclosed amounts will never coincide with the actual outcome, because of the effect of the distribution (e.g. 99% x $100,000 + 1% x $1,000,000 = $109,000 - which is 'different' either way). Weighted average is also not consistent with the US GAAP approach. If the Board decides that specific guidance on uncertain tax positions is warranted, we would suggest that rather than a weighted average model, the Board adopt a recognition threshold which requires an entity to first consider whether each tax position is more likely to be sustained before moving to a measurement requirement. This would be more consistent with the recognition threshold applied to deferred tax assets.

We believe that considerable caution is called for on this topic. These proposals appear aimed at advancing consistency with US GAAP, however, we note that the weighted average approach is not consistent with US GAAP and therefore question the benefit of adopting changes that will not achieve that consistency. More broadly, we note that in the US the provisions implemented for uncertain tax positions have arguably proved quite unsatisfactory and are in fact still not implemented for non-public companies due to a thrice repeated deferral. We would therefore question the benefits of moving towards such a model.

Overall REESA's strong view is that these proposals should not be adopted.

Question 8 – Enacted or substantively enacted rate

IAS 12 requires an entity to measure deferred tax assets and liabilities using the tax rates enacted or substantively enacted by the reporting date. The exposure draft proposes to clarify that substantive enactment is achieved when future events required by the enactment process historically have not affected the outcome and are unlikely to do so. (See paragraphs BC64–BC66 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not?

We support this proposal.

Question 9 – Sale rate or use rate

When different rates apply to different ways in which an entity may recover the carrying amount of an asset, IAS 12 requires deferred tax assets and liabilities to be measured using the rate that is consistent with the expected manner of recovery. The exposure draft proposes that the rate should be consistent with the deductions that determine the tax basis, i.e. the deductions that are available on sale of the asset. If those deductions are available only on sale of the asset, then the entity should use the sale rate. If the same deductions are also available on using the asset, the entity should use the rate consistent with the expected manner of recovery of the asset. (See paragraphs BC67–BC73 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not?

We agree the rate used should be consistent with the expected manner of recovery. However, as noted earlier, we believe that allowing the assessment of the manner of recovery only to be incorporated where the tax basis is equivalent will potentially result in anomalous results for transactions which are economically similar.

Question 10 – Distributed or undistributed rate

IAS 12 prohibits the recognition of tax effects of distributions before the distribution is recognised. The exposure draft proposes that the measurement of tax assets and liabilities should include the effect of expected future distributions, based on the entity's past practices and expectations of future distributions. (See paragraphs BC74–BC81 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not?

We strongly support this proposal. For REIT entities the ability to consider future distributions is important in determining an appropriate tax position.

Question 11 – Deductions that do not form part of a tax basis

An entity may expect to receive tax deductions in the future that do not form part of a tax basis. SFAS 109 gives examples of 'special deductions' available in the US and requires that 'the tax benefit of special deductions ordinarily is recognized no earlier than the year in which those special deductions are deductible on the tax return'. SFAS 109 is silent on the treatment of other deductions that do not form part of a tax basis. IAS 12 is silent on the treatment of tax deductions that do not form part of a tax basis and the exposure draft proposes no change. (See paragraphs BC82–BC88 of the Basis for Conclusions.) Do you agree that the exposure draft should be silent on the treatment of tax deductions that do not form part of a tax basis? If not, what requirements do you propose, and why?

We agree with this proposal.

Question 12 – Tax based on two or more systems

In some jurisdictions, an entity may be required to pay tax based on one of two or more tax systems, for example, when an entity is required to pay the greater of the normal corporate income tax and a minimum amount. The exposure draft proposes that an entity should consider any interaction between tax systems when measuring deferred tax assets and liabilities. (See paragraph BC89 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not?

We agree with this proposal.

Question 13 – Allocation of tax to components of comprehensive income and equity

IAS 12 and SFAS 109 require the tax effects of items recognised outside continuing operations during the current year to be allocated outside continuing operations. IAS 12 and SFAS 109 differ, however, with respect to the allocation of tax related to an item that was recognised outside continuing operations in a prior year. Such items may arise from changes in the effect of uncertainty over the amounts reported to the tax authorities, changes in assessments of recovery of deferred tax assets or changes in tax rates, laws, or the taxable status of the entity. IAS 12 requires the allocation of such tax outside continuing operations, whereas SFAS 109 requires allocation to continuing operations, with specified exceptions. The IAS 12 approach is sometimes described as requiring backwards tracing and the SFAS 109 approach as prohibiting backwards tracing.

The exposure draft proposes adopting the requirements in SFAS 109 on the allocation of tax to components of comprehensive income and equity. (See paragraphs BC90–BC96 of the Basis for Conclusions.) Do you agree with the proposed approach? Why or why not? The exposure draft deals with allocation of tax tocomponents of comprehensive income and equity in paragraphs 29–

34. The Board intends those paragraphs tobe consistent with the requirements expressed in SFAS 109. Would those paragraphs produce results that are materially different from those produced under the SFAS 109 requirements? If so, would the results provide more or less useful information than that produced under SFAS 109? Why? The exposure draft also sets out an approach based on the IAS 12 requirements with some amendments. (See paragraph BC97 of the Basis for Conclusions.) Do you think such an approach would give more useful information than the approach proposed in paragraphs 29–34? Can it be applied consistently in the tax jurisdictions with which you are familiar? Why or why not? Would the proposed additions to the approach based on the IAS 12 requirements help achieve a more consistent application of that approach? Why or why not?

In relation to the issues addressed in Question 13, we agree with the proposed approach as we believe that while backward tracing reflects the substance of the transaction more closely, it is cumbersome and of little value to financial statement users.

Question 14 – Allocation of current and deferred taxes within a group that files a consolidated tax return

IAS 12 is silent on the allocation of income tax to entities within a group that files a consolidated tax return. The exposure draft proposes that a systematic and rational methodology should be used to allocate the portion of the current and deferred income tax expense for the consolidated entity to the separate or individual financial statements of the group members. (See paragraph BC100 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not?

We agree with these proposals. Given the unique nature of the tax regime in each jurisdiction, we agree with the approach of the ED to state the high level principle only.

Question 15 – Classification of deferred tax assets and liabilities

The exposure draft proposes the classification of deferred tax assets and liabilities as current or non-current, based on the financial statement classification of the related non-tax asset or liability. (See paragraphs BC101 and BC102 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not?

REESA believes that the proposal is not helpful to assessing the liquidity position of an entity, since classifying the deferred tax amounts in parallel with the underlying assets has no connection with the timing of the actual tax cash-flows.

Question 16 – Classification of interest and penalties

IAS 12 is silent on the classification of interest and penalties. The exposure draft proposes that the classification of interest and penalties should be a matter of accounting policy choice to be applied consistently and that the policy chosen should be disclosed. (See paragraph BC103 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not?

REESA agrees with this proposal.

Question 17 – Disclosures

The exposure draft proposes additional disclosures to make financial statements more informative. (See paragraphs BC104–BC109 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not? The Board also considered possible additional disclosures relating to unremitted foreign earnings. It decided not to propose any additional disclosure requirements. (See paragraph BC110 of the Basis of Conclusions.) Do you have any specific suggestions for useful incremental disclosures on this matter? If so, please provide them.

As noted earlier, REESA is concerned with the additional disclosure requirements proposed for entities not subject to income tax because their income is taxed directly to their owners. We believe this will add additional audit costs without providing any additional meaningful financial information.

We also suggest that the Board clarify whether this provision is intended to apply to entities such as REITs which are not taxed due to distribution thresholds and compliance with other legislative requirements.

Question 18 – Effective date and transition

Paragraphs 50–52 of the exposure draft set out the proposed transition for entities that use IFRSs, and paragraph C2 sets out the proposed transition for first-time adopters. (See paragraphs BC111–BC120 of the Basis for Conclusions.) Do you agree with these proposals? Why or why not?

We support this proposal.

Asian Public Real Estate Association
Singapore

British Property Federation
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European Public Real Estate Association
Netherlands

National Association of
Real Estate Investment Trusts
United States

Property Council of Australia
Australia

Real Property Association of Canada
Canada

APPENDIX I

REESA – The Real Estate Equities and 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
- Association for Real Estate Securitization (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

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:

- Lease Accounting
- Revenue Recognition
- 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
- OECD developments on cross border real estate flows and international tax treaties