

Technical Director
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Financial Accounting Standards Board
401 Merritt 7 PO Box 5116
Norwalk, Connecticut 06856-5116

International Accounting Standards Board 30 Cannon Street London EC4M 6XH

15<sup>th</sup> February 2012

## **Re: Investment Property Entities Proposed Accounting Standard - Exposure Draft (ED)**

Dear Sir/Madam:

We are pleased to submit the attached letter in response to the Financial Accounting Standards Board's (FASB) Exposure Draft: *Investment Property Entities (Topic 973) – Proposed Accounting Standards Update Exposure Draft* (ED). The comments in the attached letter were addressed to the IASB following the FASB's decision to adopt an entity based scope early in 2011. Nevertheless, we would like to formally submit these to the FASB as the comments are relevant to the *Investment Property Entities* ED.

The attached letter was submitted on behalf of the members of the Real Estate Equity Securitization Alliance (REESA). These members include the following real estate organizations:

Asia Pacific 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 the Exhibit. 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 FASB and the IASB (collectively, the Boards) for the opportunity to comment on the proposal with respect to this important project. If you would like to discuss our comments, please contact Gareth Lewis, EPRA's Director of Finance, at gareth.lewis@epra.com (+32 2739 1014).

Respectfully submitted,





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

Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, Connecticut 06856-5116

14<sup>th</sup> March 2011

## Re: FASB's development of US standard on Investment Property

Dear Sir/Madam:

We are writing to you on behalf of the undersigned members of the Real Estate Equity Securitization Alliance (REESA) to provide our views on the FASB's recent decision to apply an entity-based approach to the scope of the US GAAP equivalent of International Accounting Standard No. 40, *Investment Property* (IAS 40). Please see the Exhibit to this letter for a description of REESA.

REESA has been, and continues to be, a strong supporter of global convergence of financial reporting standards and has submitted the global real estate industry's views on all major joint Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) proposed standards.

REESA members are greatly concerned that the approach taken by the FASB in its proposed investment property standard is significantly different to the well-established approach adopted in IAS 40. While IAS 40 defines the scope of the standard based on the characteristics of property assets, the tentative approach of the FASB is to define the scope of its standard based on the characteristics of the entity holding the property.

The FASB's proposed scope definition would benefit from greater clarity, but we believe that, as drafted, it would result in some property that is classified as investment property under IAS 40 being scoped out of the equivalent US standard. REESA's primary concern is that this approach introduces an unnecessary and unhelpful divergence in global standards for reporting investment property, which will disrupt the significant progress that is already being made in this area. Furthermore, an entity-based approach seems inconsistent with the FASB's previously stated intentions to avoid issuing industry-specific standards and to harmonize global standards.

The global real estate industry outside of the United States has applied the asset-based approach in IAS 40 for many years. Companies in the United Kingdom, Australia, New Zealand and Hong Kong have been applying the asset-based approach in similar standards since 1981. We see no flaws in this asset-based approach and consequently see no reason whatsoever to change to an entity-based approach.

The use of the fair value model for investment property is widespread and now customary across the world. Surveys conducted by both PricewaterhouseCoopers and Ernst & Young of investment property businesses in the listed sector show almost universal (over 90%) use of the fair value model. Both we and industry financial statement users believe that this approach is the best way of providing investors, and other users of the financial statements, relevant information on which to base investment decisions.

To ensure the continuation of this relevant reporting under IFRS, as well as achieve global convergence of investment property reporting, we urge the IASB to maintain, and encourage the FASB to adopt, an asset-based approach to ensure that all investment property is included in the scope of a consistent global standard. On a related note, we understand that IAS 40 may be modified to accommodate the IASB's conclusion that lessors of investment property reported at fair value would be scoped out of the proposed Leases standard. REESA would be pleased to assist the IASB in considering these and possibly other modifications to IAS 40.

If you would like to discuss any of our comments, please contact Gareth Lewis, EPRA's Director of Finance, at gareth.lewis@epra.com or +32 2739 1014.

Yours faithfully,

Gareth Lewis

Finance Director



Asia Pacific Real Estate Association Singapore



European Public Real Estate Association Belgium



British Property Federation United Kingdom



National Association of Real Estate Investment Trusts United States



Real Property Association of Canada Canada



Property Council of Australia Australia

## **Exhibit**

## **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 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