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

November 7, 2008

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

Re: Exposure Draft of Proposed Improvements to International Financial Reporting Standards (2008)

Dear Sir/Madam:

We are pleased to submit this comment letter on the IASB's exposure draft of Proposed Improvements to International Financial Reporting Standards (2008). We are submitting these comments on behalf of the following real estate organizations:

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 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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Comment Letter Submitted by the

Real Property Association of Canada

On Behalf of the following Organizations:

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)

In response to the

Exposure Draft of Proposed

Improvements to International Financial Reporting Standards (2008)

Issued by the International Accounting Standards Board

August 2008

November 7, 2008

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

Re: Exposure Draft of Proposed Improvements to International Financial Reporting Standards (2008)

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 *Proposed Improvements to International Financial Reporting Standards* (Exposure Draft). The undersigned organizations represent publicly traded real estate companies and Real Estate Investment Trusts (REITs) in the United Kingdom, Europe, Australia and North America. 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.

We are providing our comments on a select number of 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. IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations.*

Question 1
Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the Board's proposal. We believe the proposed amendment is an improvement to the current IFRS in that it adds greater clarification regarding the standard to which required disclosures apply for non-current assets (or disposal groups) classified as held for sale or discontinued operations.

Question 2
Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We have no objection to the proposed transition provisions and effective date for this issue.

2. IAS 7 – *Statement of Cash Flows.*

Question 1
Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We have no objection to this proposed amendment. We believe that in most cases, if not all, items recognized by the real estate investment and development industry as investing activities will have been initially recognized as assets in the statement of financial position.

Question 2
Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We have no objection to the proposed transition provisions and effective date for this issue.

3. IAS 18 – *Revenue.*

Question 1
Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We have no objection to this proposed amendment. We agree with the Board's approach of adding guidance that is principles-based rather than prescriptive in nature as each situation will require judgment based on the individual facts and circumstances.

Question 2
Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We have no objection to the proposed effective date of this issue.

Question 3
What indicators, if any, other than those considered by the Board should be included in the guidance proposed?

Further to our comments under Question 1 above, we believe the indicators considered by the Board to be sufficient for the proposed guidance. The proposed guidance maintains a principles-based approach which in our view is preferred so that judgment may be applied to varied situations where facts and circumstances differ.

4. IAS 39 – *Financial Instruments: Recognition and Measurement*. Specifically the Scope Exemption of Business Combination Contracts – amendment to paragraph 2(g).

Question 1
Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

No, we are opposed to the proposed amendment regarding the scope exemption in paragraph 2(g) to limit the exemption to only binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date.

In our view, the amendment to paragraph 2(g) may result in an option arrangement, that is not currently exercisable, to purchase shares in an entity that holds a property (or group of properties) to be accounted for as a derivative. In contrast, the very same arrangement, except that the option is currently exercisable, would be excluded from the scope of IAS 39 based on paragraph 2 (a). Further, a contract to purchase a property directly (rather than through shares in an entity) would not be accounted for as a derivative as it would generally be a contract to purchase a non-financial item that cannot be net settled in cash in accordance with IAS 39, paragraph 5. Consequently, transactions that are economically identical would be accounted for differently and result in a situation where form over substance of an arrangement impacts the accounting treatment.

These issues are expected to have a more significant impact on our industry due to the revised definition of a business per IFRS 3 (R) where it generally expands the definition to include a wider range of assets. As a result, a greater number of building purchases may be considered business combinations.

Our analysis of the proposed amendment of the Exposure Draft and the different accounting implications arising from economically identical transactions for both acquisitions of shares in an entity that holds a property and direct property (non-financial item) acquisitions are illustrated in the table below:

	Forward Contract	**Option Contract**	
Acquisition of shares in an entity that holds property	Out of scope (IAS 39.2(g)) No derivative	**Non-currently exercisable** **In scope** **Derivative**	Currently exercisable Out of scope (IAS 39.2(a)) No derivative
Direct property (non-financial item) acquisition	Out of scope (IAS 39.5) No derivative	Non-currently exercisable Out of scope (IAS 39.5) No derivative	Currently exercisable Out of scope (IAS 39.5) No derivative

The table highlights that non-currently exercisable option contracts to purchase shares in an entity that holds a property are accounted for differently, despite these contracts having the same economic substance as non-currently exercisable option contracts in a direct property acquisition, currently exercisable option contracts or forward contracts.

The issue can be illustrated through a simple example:

Facts

Assume a developer is looking at whether it should enter into a specific city market. The developer enters into an option to purchase the shares of a corporation holding a leased-up building, exercisable in one year's time. The building is held in a separate corporation so the developer plans to purchase the shares of that corporation. The option is exercisable at a specific date in one year and for a specified dollar amount. In this specific example, the leased-up building will meet the definition of a business in accordance with IFRS 3 (R) when the option becomes currently exercisable.

Analysis

Based on the proposed amendments to paragraph 2(g), the option contract is not currently exercisable and therefore would fall within the scope of IAS 39. The option contract would be accounted for as derivative.

On the other hand, had the developer purchased an option to purchase the leased-up building directly (rather than the shares of the corporation holding the building), the option contract would not be accounted for as a derivative because the contract is a non-financial contract which cannot be net settled in cash and therefore outside the scope of IAS 39.

The substance of both arrangements is the same. The developer sets a price and date to purchase a building in a specific market. However, the accounting treatment of the option arrangement changes based on the legal form of the transaction.

In summary, we recommend that the Board not proceed with the proposed amendment to paragraph 2(g).

Question 2

Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

As we do not agree with this proposed amendment we have no comment with respect to its transition provision or effective date.

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,

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