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Warren McGregor
Board Member
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30 Cannon Street
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31 May 2005

Dear Sirs,

Invitation to comment on March 2005 Paper 'the Role of Accounting Standard Setters and their Relationship with the IASB'

Colonial First State Property ("CFSP") is pleased to provide comments on the paper released in March 2005 by the Australian Accounting Standards Board ("AASB") regarding the draft memorandum of understanding released by the IASB on the role of accounting standard setters and their relationship with the IASB.

CFSP is an integrated property services business combining specialist operations in property funds management and corporate real estate. CFSP is part of Commonwealth Bank of Australia and has operations in both Australia and New Zealand. All our property funds, listed or unlisted, will be impacted by the role the AASB plays in the standard setting process in Australia.

Given the current environment and the demand for transparent, comparable, reliable and relevant financial information, we regard the documentation of the role that standard setters such as the AASB perform as a prudent step in ensuring a smooth process to the harmonisation of financial reporting.

Formerly, the Australian financial reporting environment, led by the AASB, was proactive regarding developing a framework that caters for an everchanging environment with pressing and at times controversial issues. By consistently liaising with both industry participants and groups it provided a constructive open platform for discussion and debate that resulted in the most efficient and effective outcome for the market. This process enabled Australia, although less significant in capitalisation when compared to many of the world markets, to cultivate a developed highly regulated transparent financial reporting environment.

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Since the onset of the harmonisation process the constructive and proactive role of the AASB within the Australian financial reporting environment has narrowed and resulted in a standard setting body that is restrictively reactive in its application of outcomes from IASB decisions. In order to nurture the robust financial reporting environment that currently exists in Australia, our standard setting body should be provided with an appropriate relationship platform to regain its proactive and broader role in standard setting.

Specific Matters for Comment

In response to the specific matters for comment following are specific comments:

1. *Whether the proposal relating to the project role of accounting standard setters is reasonable*

The defined project role of the accounting standard setter is a positive step toward ensuring that the function of the IASB and the participation the separate accounting standard setters' remains constructive and pertinent.

Regional application

Australia is both a world leader in the early adoption of IFRS and has a history of comprehensive and transparent standard setting in its region. However due to its relatively small overall national capitalisation compared to both regional and world IASB participants, Australia is unable to exert pressure on both a regional and international level.

However in specific industry segments Australia is a material leader. For example, as detailed in the table below, Australia has the highest securitised property market when compared to its local investible universe with the proportion of securitised property forming the largest segment percentile of any local stock market. Moreover, Australia's securitised property market is one of the oldest and most mature property markets with the first listed property trust being formed in 1971. Noting the above it appears equitable that Australia be one of the first IASB participants to be approached regarding a project role that would affect the property related standards.

Global property investment market (US$bn)

as at June 2004

country/ region	Investible universe	mix of universe	securitised market		
			size	% universe	% stock mkt
US	2,525	42%	303	12%	1%
UK	490	8%	83	17%	2%
Cont. Europe	1,500	25%	60	4%	1%
Australia	100	2%	52	52%	9%
Japan	705	12%	71	10%	2%
HK / China	540	9%	70	13%	7%
Other Asia	88	1%	9	10%	n.a.
Total	5,948	100%	648	11%	

Source: UBS and CFSP Research.

To ensure equitable IASB administration of the project roles and the fair allocation of standard setters between the roles put forward by the IASB, it is proposed that the memorandum of understanding be expanded to include a structured specific process for selection of a diverse range of regions or jurisdictions and to ensure that the standard setters invited to participate in a particular project are appropriate and possess requisite industry knowledge for the particular project.

2. *Whether the proposed role of accounting standard setters in interpreting International Financial Reporting Standards is reasonable*

Dispute resolution process

Provided in the draft memorandum of understanding from the IASB is a summary of the application of the standards to the local jurisdiction, providing that the local standard setter should avoid amending the IFRSs in a manner that creates a non-compliance with the IFRSs (paragraph 6.7).

This comment appears to be in place to ensure that the IFRSs are consistent between jurisdictions, however the memorandum is silent in relation to any dispute resolution process that provides a platform for local jurisdictions to forward any unwanted application of the IFRSs. Such unwanted application may arise due to differences in the regulatory and legal environment within which the jurisdictional IFRS equivalent standards are operating.

For example, due to the relative maturity and sophistication of the Australia trust market the application of IAS 32 results in a financial instrument classification that would, without the amendment of the Australian equivalent standards, result in a presentation and disclosure of the financial position of the trusts that is vastly different from other Australian and international market segments and diverge from the substance and commercial reality of the equity instruments.

Timeliness of interpretations

To ensure that issues encountered by different jurisdictions that require interpretation are appropriately dealt with and considered on a timely basis, there should be a restriction to the response process allocated to the IFRIC and the IASB in concluding their interpretations within section 7 of the memorandum.

Currently, this appears to be handled within the closest timeframe possible, however, to ensure a level platform for responses to be handled a restricted period should be expressed within the memorandum not just implied through the operations of the boards.

Increased scope for guidance

The current draft memorandum of understanding does not detail whether local standard setting bodies are able to provide further detailed guidance on the application of the local equivalent IFRSs.

Additional local guidance in relation to the interpretation of the standards within their jurisdiction would enable consistent local application taking into account the inherent differences between jurisdictions. The level of guidance should be explicit within the memorandum of understanding.

Conclusion

Due to the change in the financial reporting environments globally standard setters such as the AASB have narrowed their role to the point where they appear to act as no more than an intermediary to the IASB and the local regulators.

In appraising the draft memorandum of understanding the primary point of concern is that the local standard setting bodies appear to have limited recourse against the IASB decisions, interpretations and standard setting, especially where understandably the IASB may not have specific regard to the regulatory environment of different jurisdictions.

The harmonisation process is a positive step toward providing transparent, comparable, reliable and relevant financial information and opening localised capital markets to the global community. However, if the local standard setting bodies are limited in their application, unintended applications of IFRSs (and AASB equivalents) due to this limited application may result and may undermine the harmonisation process.

We thank you for the opportunity to comment.

Please treat this as a confidential submission, and not publish this document on public record without consent.

Yours sincerely,

PETER ROBERTS
Chief Financial Officer
Colonial First State Property