2 September 2009

Mr Kevin Stevenson
The Chairman
Australian Accounting Standards Board
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Submitted via www.iasb.org "open for comment"

Dear Mr Stevenson

IASB Exposure Draft: *Fair Value Measurement*

Thank you for the opportunity to provide our comments on the International Accounting Standards Board (IASB or Board) Exposure Draft (ED) *Fair Value Measurement.*

The Property Council is the peak body representing the interests of investors in Australia's $360billion commercial property investment industry. The Property Council has over 2000 members, ranging from Australia's largest institutions to private investors and developers covering the four quadrants of real estate investing - public, private, debt and equity.

The Property Council supports enhanced comparability of financial information between real estate companies worldwide.

We summarise below the key areas of the ED which will impact the property sector, and in particular the Real Estate Investment Trust (REIT) sector, which is the predominant listed and unlisted vehicle used for investing in real estate in the Australian market.

In summary, our views are that the IASB should:

1) resolve the differences between the ED and FASB fair value standard (SFAS 157) to ensure effective and efficient convergence;

2) retain the useful guidance in paragraphs 45 to 48 of IAS 40 regarding determination of fair value for investment properties; and

3) clarify the examples (including example 12) to ensure that land, buildings or other property elements are not split for determining fair value to avoid needless complexity and confusing disclosure.

These amendments will ensure that the preparers and users of property industry financial statements are not burdened by unnecessarily complex methodologies or confused by unnecessarily complex disclosure.

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PROPERTY COUNCIL of Australia

We have included in the Appendix our detailed observations on those questions that we consider relevant to our industry. The Appendix does not address those questions for which we have no additional comments.

We would be pleased to meet with the Board or its staff to discuss any questions regarding our comments.

Yours sincerely

Roberto Fitzgerald
Executive Director International & Capital Markets
Property Council of Australia

Appendix A: Responses to relevant questions

Question 10

The exposure draft proposes guidance on valuation techniques, including specific guidance on markets that are no longer active (see paragraphs 38–55 of the draft IFRS, paragraphs B5–B18 of Appendix B, paragraphs BC80–BC97 of the Basis for Conclusions and paragraphs IE10–IE21 and IE28–IE38 of the draft illustrative examples).

Is this proposed guidance appropriate and sufficient? Why or why not?

We support the Board's effort to establish a framework for measuring and disclosing fair value on a consistent basis to all assets, liabilities and equity instruments.

However, this framework should not necessarily eliminate fair value guidance currently within IFRS that may continue to be relevant and useful while remaining consistent with the principles of the framework.

IAS 40 contains specific guidance (paragraphs 45 to 48) in relation to the determination of fair value for investment properties. We believe these paragraphs fall closely within the proposed fair value framework of the ED but provide an additional level of guidance with respect to determining the most advantageous market and the assumptions and methodologies to consider in establishing a fair value for investment property.

The ED proposes to eliminate this specific guidance which will result in those entities that report fair value of investment property under IAS 40 to turn to the generic proposals of the ED.

We recommend that the Board retains the useful guidance in paragraphs 45 to 48 of IAS 40 when the final fair value measurement standard is issued.

Question 11

The exposure draft proposes disclosure requirements to enable users of financial statements to assess the methods and inputs used to develop fair value measurements and, for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period (see paragraphs 56–61 of the draft IFRS and paragraphs BC98–BC106 of the Basis for Conclusions).

Are these proposals appropriate? Why or why not?

The ED establishes a fair value hierarchy that prioritizes the inputs to valuation techniques into three levels. The ED also requires that the fair value measurement is categorized in its entirety in the same level as the lowest level input that is significant to the entire measurement.

For investment properties, fair value measurements will likely fall into the Level 2 category when the property markets are active and there are numerous transactions occurring across all geographical areas or asset types.

However, in many cases, fair value of investment property will require not only market observations but significant input of managements' and professional valuers' estimates, particularly where fair value will be based on discounted cash flow methods, thus rendering these valuations to a Level 3 category.

The illustrative examples of the Exposure Draft further suggest that the fair value of investment property will need to be subdivided between the fair value component derived from Level 2 inputs and the fair value component derived from Level 3 inputs (see Example 12).

In addition to this, Example 12 also splits the fair value of investment property between the land and buildings element. It is not clear from the example whether the land is a separate piece of land or whether it is the land upon which the building is situated. If it is the latter we are concerned that this example may indicate a requirement to split the fair value of a property between the land and buildings element.

The valuations of investment property executed today are not split between Level 2 inputs and Level 3 inputs or the land element and the building element. Equally, the fact that valuations are not precise calculations will make it difficult to split the fair value of investment property into these elements.

The proposed segmentation would not provide any additional benefit to users of financial statements of real estate entities and would more likely confuse users.

Question 12
The exposure draft differs from Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157) in some respects (see paragraph BC110 of the Basis for Conclusions). The Board believes that these differences result in improvements over SFAS 157. Do you agree that the approach that the exposure draft proposes for those issues is more appropriate than the approach in SFAS 157? Why or why not? Are there other differences that have not been identified and could result in significant differences in practice?

We strongly support the joint convergence projects between the IASB and the Financial Accounting Standards Board (FASB) on key accounting standards in recent years.

Fair value measurement is an important standard that permeates virtually every other standard and therefore it is critical that both standards are converged.

The ED differs from SFAS 157 in some respects. We recommend that Complete convergence with SFAS 157 should be achieved before issuing a final fair value standard.