



GPT RE Limited
 ABN 27 107 426 504
 as Responsible Entity of
 General Property Trust
 AFSL 286511

Level 52
 MLC Centre
 19 Martin Place
 Sydney NSW 2000
 Australia

T: +61 2 8239 3555
 F: +61 2 9225 9318
 E: gpt@gpt.com.au
 www.gpt.com.au

11 November 2010

The Chairman
 Australian Accounting Standards Board
 PO Box 204
 Collins Street West Victoria 8007
 AUSTRALIA

Dear Sir/Madam,

Re: AASB Exposure Draft - ED202R Leases

We are pleased to submit this letter on the Australian Accounting Standards Board's (AASB) Exposure Draft ED 202R Leases. The GPT Group has been listed on the Australian Stock Exchange since 1971 and is today one of Australia's largest diversified listed property groups. GPT's \$9.5 billion property portfolio consists of quality Australian assets across the retail, office and industrial/business park sectors. As a major holder of investment properties and as one of the largest landlords in Australia we have a strong interest in ensuring that the reporting of financial information related to investment property and its leasing is relevant and transparent. We have therefore made the following general comments in regards to Exposure Draft ED 202R Leases.

Exclusion for lessors of investment property reported at fair value

We are fully supportive of the conclusion reached in the Exposure Draft (ED) to exclude from the proposed lease accounting standard lessors that report investment property at fair value. In addition, we support the Financial Accounting Standards Board's examination of a standard under U.S. GAAP that would mirror International Accounting Standard No. 40, *Investment Property* (IAS 40) and AASB 140 Investment Property. Such a standard would enable convergence of standards for accounting for investment property world-wide; and ensure relevant, comparable and transparent reporting by investment property companies globally.

The current AASB for investment property accounting, AASB 140, is well supported by industry financial statement preparers reporting under AASB's, International Financial Reporting Standards (IFRS) and industry financial statement users who rely on those statements. It requires a property company to record its investment properties at fair value and report rental income in the profit and loss account. The full amount of rental income is fundamental to investors in assessing the performance and investment quality of investment property companies. Removing this metric pursuant to the proposed leases standard would represent a step backward in terms of investment property companies communicating effectively to investors, financial analysts and other financial statement consumers.

Interpretation 115 – Operating Leases - Incentives

We understand that the ED is silent on accounting for lease incentives and that the International Accounting Standards Board has withdrawn SIC-15 Operating Leases.



Lease incentives form part of most current day leasing deals for lessors and lessees of investment property and therefore further guidance is required on the accounting for lease incentives should Interpretation 115 also be withdrawn.

Comments on proposed lessee accounting model

The comments below reflect our views on the leasing model from the lessee's side given that it will apply to our tenants and therefore may affect future lease agreements.

Contingent rents

We believe that the proposal for contingent rentals included in the measurement of the lease receivables and liabilities does not provide an appropriate recognition criteria for a liability.

Our concern is that estimates of contingent rents under the proposal in the ED will be unreliable due to uncertainty and the long time between inception and the triggering event date. Estimating contingent rents will create lack of symmetry between lessees and lessors in accounting for the same contract, as well as lack of comparability and increased judgment surrounding these balances amongst lessors and amongst lessees. The estimation of contingent rents also becomes less reliable the longer the period of time involved.

GPT's preferred approach would therefore be for contingent rentals to be excluded from the measurement of the lease receivables and liabilities. Contingent rents should be recognised when the contingent event occurs because it is rare that estimates of these elements are reliable at the inception of the lease and the longer the lease term, the less reliable are the estimates.

Lease renewals

We disagree with the ED's proposal that the lease term should be the 'longest possible term that is more likely than not to occur' taking into account the effect of any options to extend or terminate the lease. The lease term should be the contract length unless the option is virtually assured of being exercised because the "option" is not substantive (i.e. it must be exercised by the lessee).

Estimating renewals will create a lack of symmetry and comparability amongst lessors and amongst lessees in accounting for the same contract. The estimation of possible renewals also becomes less reliable the longer the period of time involved.

Accordingly, we believe that lease renewal options should not be included in the measurement of lease receivables and liabilities. The liability should only be recognized when the lessee exercises the option. The lease term should be defined by reference to the first lease break or renewal option.

If you would like to discuss this matter with us, please contact me at andrew.draney@gpt.com.au or Marie Maroulis at marie.maroulis@gpt.com.au.

We thank the AASB for the opportunity to comment on this Exposure Draft on lease accounting.

Yours sincerely

Andrew Draney
Deputy Chief Financial Officer