

Dear IASB Staff,

Thank you for your time on the 19th of June 2023 to meet with us. As discussed, we wanted to provide you in writing some of the queries we asked and our understanding of your response to the same. Please feel free to advise where we might have misunderstood an explanation. As always, we greatly appreciate our engagement with the IASB on such important matters.

In case of any questions, please do not hesitate to contact us.

Kind Regards

REESA Group | EPRA

Questions to the IASB from the European Public Real Estate Association

Many of the conclusions are based on interpretations of the exposure draft and the subsequent IASB updates. Therefore, to confirm the conclusions made in this paper, we have the following questions:

- 1) Net Rental Income is not an MPM as specified in the ED (B78). EPRA excludes, for the purpose of calculating net initial yield (non-GAAP measure), the following expense categories from net rental income (the numerator in this ratio):
 - service charge, local property taxes or insurance shortfalls relating to vacant space;
 - permanent shortfall on service charge or operating expenses (such as ground rents); and
 - other direct property management costs whether externalised or internalised, (such as shopping centre management expenses), net of the part recovered under the service charge

Do you agree that these exclusions do not lead to EPRA net rental income being classified as an MPM?

→ IASB: Yes, adjusting the net rental income would normally make it an MPM, but in this case we are excluding items and not including items, which would make it closer to the Operating Income subtotal. In addition to that, Aida emphasized that the label and the description needs to be clear, in that case, it will not be considered an MPM.

- 2) In addition, the Net Rental Income figure mentioned above is annualised. Is annualization equivalent to an adjustment that may lead to classification as an MPM?

→ IASB: No, the key word, when looking at if whether a BPR (non-GAAP measure) is an MPM or not is: Performance. Annualising the net rental income would not show the company's performance and therefore it is not considered an MPM.

- 3) Do you agree that total expenses in the IFRS statement of profit and loss is a subtotal that is not an MPM because the operating profit may presented under the nature of expense method?

→ IASB: Correct, same as above. This is a matter of presentation.

- 4) In various Non-GAAP ratios prescribed by EPRA, subtotals included in the statement of income are adjusted for the proportional share of joint ventures. Does such an adjustment cause that a subtotal corrected in this way, automatically qualifies as an MPM?

→ IASB: No, even though we believe, there is still deliberation on treatment of JVs, adjusting for proportional share of JVs would not qualify the BPRs (Non-GAAP measures) as MPMs.

- 5) Is it correct that in providing the reconciliations, the tax and NCI only has to be allocated to the adjustments only as suggested in the below example presented in your October 2022 webinar?

Adjusted operating profit (MPM)	52.870	Tax	NCI
Restructuring in Country X (incl. in employee benefits)	-5.400	900	-
		-	1.020
Revenue adjustment (incl. in revenue)	-6.200	1.550	
Operating profit (IFRS-specified)	41.270		

If this example is correct, it is not presented in line with the effective tax rate because the first item has a 17% tax rate and the second item a 25% tax rate. If the suggestion is made that the effective tax rate shall be that rate on a country by country basis, it is still a rather intensive exercise which to us is not the reasonable approach suggested in the January 2022 IASB update.

→ IASB: No, this table is an example. And therefore we can confirm that the effective tax rate is not required on a country by country basis.

- 6) The IASB mentioned that an MPM is by definition subjective and management has to provide a reconciliation with detailed explanations. Now, there is rebuttable presumption that if management can show that the measure disclosed is not representing management's views, but that it is rather objective and transparent, that would not be considered under the scope of the MPMs. Is an EPRA-defined metric considered as subjective or objective in view of the IASB for the PFS project purposes?

→ IASB: The location in the annual report plays a great role in determining the subjectivity/objectivity of the BPRs. Can you please confirm that if a performance measure is disclosed in the MD&A it does not automatically qualify as an MPM?

- 7) Typically audit firms (and others) take an illustrative example as authoritative, or at least would treat them as a “rebuttable presumption” on how the income statement should be structured. This would be an issue as a result of the template provided which, in some cases, is inconsistent with how many real estate companies present their income statements. For example, in illustrative example II-1, “AA Group has determined that an analysis of operating expenses using the nature of expense method provides the most useful information to users of financial statements in accordance with paragraph 68 of [draft] IFRS X.” In some jurisdictions. Similarly NOI (net operating income) is one of the most important metrics presented by real estate companies to allow users to analyze and compare companies. In the template, net rental income is not necessarily calculated the same as NOI and will simply result in companies continuing to adjust the “new” operating profit from the financials in their MD&As.

→ We hereby request the IASB to clarify that the illustrative example is not authoritative and should be used as a guidance only by practitioners and auditors.

- 8) The proposed additional disclosure of the tax and NCI effect at the level of individual adjustment in calculating a management performance measure is onerous and costly for EPRA members, even if measured at the level of the total adjustment. The IASB Staff explained that the revised approach for the calculation of the tax effect is trying to make such calculations more mechanical and less judgmental. We appreciate this, but the added value of mechanical calculations is almost zero. This pleads very much in favor of pretax calculations.

→ Given the large amount of changes proposed by staff and the board, we would like to request more clarity on the matter.

Please let us know if we can explain anything further