

Mr. Hans Hoogervorst  
 Chairman  
 International Accounting Standards Board  
 30 Cannon Street  
 London EC4M 6XH  
 United Kingdom

Submitted via electronic mail

Brussels, September 22, 2017

**SUBJECT:**

**Re: Request for Information: Post-Implementation Review – IFRS 13 Fair Value Measurement**

Dear Mr. Hoogervorst,

Thank you for the opportunity to comment on the International Accounting Standards Board's Request for Information on Post Implementation Review *IFRS 13 Fair Value Measurement*. This submission is provided on behalf of the European Public Real Estate Association (EPRA).

EPRA is the voice of the publicly traded European real estate sector. With more than 240 members, covering the whole spectrum of the listed real estate industry (companies, investors and their suppliers), EPRA represents over EUR 430 billion of real estate assets\* and 86% of the market capitalisation of the FTSE EPRA/NAREIT Europe Index. EPRA's mission is to promote, develop and represent the European public real estate sector. We achieve this through the provision of better information to investors and stakeholders, active involvement in the public and political debate, improvement of the general operating environment, promotion of best practices and the cohesion and strengthening of the industry.

## **EPRA's Comments**

EPRA is commenting specifically on questions 2, 4, 5 and 7 of the Request for Information.

### **Question 2 – Fair value measurement disclosures**

- (a) How useful do you find the information provided about Level 3 fair value measurements? Please comment on what specific information is useful, and why.
- (b) In your experience of Level 3 fair value measurements:
- (i) how do aggregation and generic disclosure affect the usefulness of the resulting information? Please provide examples to illustrate your response.
  - (ii) are you aware of any other factors (either within or outside IFRS requirements) affecting the usefulness of the information? Please provide examples to illustrate your response.
  - (iii) do you have suggestions on how to prevent such factors from reducing the usefulness of the information provided?
- (c) Which Level 3 fair value measurement disclosures are the most costly to prepare? Please explain.
- (d) Is there information about fair value measurements that you think would be useful and that IFRS 13 does not require entities to disclose? If yes, please explain what that information is and why you think it would be useful. Please provide any examples of disclosure of such information.

**Response:**

**2(a)** We consider that the following points are useful with regard to Level 3 fair value measurements.

- The fact that a measurement is at Level 3 is useful – this alerts the reader that there is significant uncertainty and subjectivity involved in the asset’s measurement.
- The measurement technique applied is useful information but improvements can be made regarding consistency in terminology and description of methods.

We consider it beneficial to provide further information on asset valuations. For example, certain EPRA member companies include paragraphs in their financial statements where they discuss the valuation methodology that was followed by the independent appraisers in order to determine the fair market value of the assets. We believe that the following is a good example:

“Valuation Methodology

Independent appraisers determine the fair market value based on the results of two methods: the discounted cash flow (DCF) methodology and/or the yield methodology. Furthermore, the resulting valuations are crosschecked against the initial yield, value per square metre and the fair market values established through actual market transactions. Appraisers have been given access to all information relevant for valuations, such as the Group’s confidential rent rolls, including information on vacancy, break options, expiry dates and lease incentives, performance indicators (e.g., footfall and sales where available), letting evidence and the Group’s cash flow forecasts from annually updated detailed asset business plans. Appraisers make their independent assessments of current and forward-looking cash flow profiles and usually reflect risk either in the cash flow forecasts (e.g. future rental levels, growth, investment requirements, void periods and incentives), in the applied required returns or discount rates and in the yield applied to capitalise the exit rent to determine an exit value.”

**2(b) (i)** The parameter ranges reported in aggregated disclosures tend to be very wide. For instance, one company shows rental values per square foot in the range £4-£51 with a weighted average of £34. Similarly, equivalent yields have been reported in a typical note as being in a range of 3.5%-10.0% with a weighted average of 5%. There are many examples of similarly wide parameter aggregation ranges. Properties valued at the highest rental value per square foot and the lowest discount rate in the ranges would be worth more than 30 times as much per square foot as those to which parameters at the opposite end of the spectrum had been applied. These wide ranges make it difficult for readers to gain much insight from the weighted average of the typical parameters involved, a metric that reflects the proper value of a portfolio.

Although it would not be appropriate for property companies to disclose the values of individual properties within their portfolios, we consider it might be helpful if some guidance were given by the IASB on ways to restrict the sizes of parameter ranges - for instance by removing extreme examples at the top and bottom of the range, if they reflect only a small proportion of the properties in the class.

**(ii)** We have found limited evidence of real estate companies identifying any of their investment property valuations at Level 2 – virtually all are at Level 3, in line with extensive discussions held among EPRA members (including auditors) back in 2012. The fact that the appraisers respect strict valuation standards along with analysts and investors having multiple ways to determine the reliability of estimates (capital gains against last unaffected value in case of disposal, comparisons between real estate companies) leads us to believe that the Level 3 classification is the correct one.

**(iii)** We have noted some suggested improvements to the information provided under IFRS 13 below in our response to Question 2(d) below. As long as confidential data form the basis for the appraisers' valuations, we believe that Level 3 is the right classification category. The only exception that we can find is when it comes to assets for which a purchase and sale agreement has been signed but the transaction has not been completed as of the balance sheet date. A proposal that might be helpful would be to have standardisation of the disclosure requirements by providing real estate-specific examples.

**2(c)** There is certainly a cost attached to analysing the portfolio by asset class and providing corresponding ranges and weighted averages of parameters. However, we consider that valuation appraisal companies could be requested to provide IFRS 13 disclosure tables as part of their valuation reports – this should assist with streamlining activities, improving comparability and saving costs.

One controversial point is that the wider the range of properties underlying an average, the less meaningful these disclosures become. However, lowering aggregation levels might be an even more costly process.

**2(d) (i)** With regard to the wide ranges of Level 3 inputs referred to in our response to Question 2(b) above, we think that this could be improved by removing extreme examples from the tops and bottoms of ranges as it is usually the case that these values are often not significant and relate to specific assets.

As noted earlier, we consider that it might be helpful if the IASB were to work with the IVSC to provide some specific disclosure examples for investment properties. This might involve obtaining input directly from property companies and property valuers.

**(ii)** Some valuations are performed using a primary method with valuation results subsequently being cross-checked by reference to another method. When this is the case, it would assist the reader if this were explicitly stated, i.e. which method is the primary method and what the valuation inputs (with the additional detail listed above) were and the same information for supporting cross-check methods.

For instance, when information such as fair market values per square meter estimated from 'actual market transactions' is disclosed, it is not always clear whether this was used in the primary or a supporting valuation method.

#### **Question 4 – Application of the concept of highest and best use for non-financial assets**

Please share your experience to help us assess:

- (a)** whether the assessment of an asset's highest and best use is challenging, and why. Please provide examples to illustrate your response.
- (b)** whether the current uses of many assets are different from their highest and best use, and in which specific circumstances the two uses vary.
- (c)** whether, when applying highest and best use to a group of assets and using the residual valuation method, the resulting measurement of individual assets in the group may be counter-intuitive. If so, please explain how this happens, and in which circumstances.
- (d)** whether there is diversity in practice relating to the application of the concept of highest and best use, and when and why this arises.

Please note whether your experience is specific to a jurisdiction, a region or a type of asset.

### Response

Highest and best use is not much of an issue in the real estate industry. Property companies, as asset owners, aim to generate the highest and best use of their assets, whether by selling them or by developing them. EPRA members see a very limited applicability of the “highest and best use” principle, which may be used by auditors as a tool in discussions with management to challenge valuation / asset management than a real valuation issue.

### Question 5 – Applying judgements required for fair value measurement

Please share your experience to help us assess the challenges in applying judgements when measuring fair value:

- (a) Is it challenging to assess whether a market for an asset or a liability is active?
- (b) Is it challenging to assess whether an input is unobservable and significant to the entire measurement? Why or why not?

Please provide specific examples to illustrate your response and note whether your experience is specific to a jurisdiction or a region or a type of asset or liability.

### Response to Question 5(b):

EPRA believes that if companies provide the type of language included in answer to Question 2a, the reader of financial statements can easily determine the significance of such inputs.

### Question 7 – Effects and convergence

- (a) Please share your experience of the overall effect of IFRS 13:
  - (i) what effect did IFRS 13 have on users’ ability to assess future cash flows? If you are a user of financial statements, please provide us with examples of how you use information provided by entities about their fair value measurements and any adjustments you make to the measurements.
  - (ii) what effect did IFRS 13 have on comparability of fair value measurements between different reporting periods for an individual entity and between different entities in the same reporting period?
  - (iii) what effect did IFRS 13 have on compliance costs; specifically, has the application of any area of IFRS 13 caused considerable costs to stakeholders and why?
- (b) Please comment on how you are affected by the fact that the requirements for fair value measurement in IFRS 13 are converged with US GAAP; and please comment on how important it is to maintain that convergence.

### Response:

(a) i: If users of the financial statements were to use the weighted averages provided, including the net rental income growth the appraisers assume, cashflow growth can be approximated.

## General Comment

Our overall view is that IFRS 13 has, in certain cases, helped towards providing comparability of fair value measurements between different real estate companies, particularly when companies of the same business model are being considered. There are limitations however within the real estate sector given the big differences that exist among companies operating in different segments of real estate (e.g. warehouses & logistics, offices). It should also be noted that significant differences could exist even within the same real estate segment (e.g. offices in London vs offices in Hamburg).

We note that virtually all real estate companies refer to independent external valuations being performed. EPRA believes that the market should make the determination as what is relevant for the companies involved and no mandatory standard should be set in this regards as that ignores the fact that there are many different real estate asset classes.

EPRA members also recommend that standardisation of disclosure requirements should be considered by way of providing real estate specific examples.

We thank the Board for the opportunity to provide our input on the Post-Implementation Review – IFRS 13 Fair Value Measurement. If you would like to discuss our comments, please contact Hassan Sabir, EPRA's Director of Finance, at [h.sabir@epra.com](mailto:h.sabir@epra.com).

Respectfully submitted,



**Hassan Sabir | Director of Finance, EPRA**