IAS 40

The effects of the implementation of IAS 40 for listed investment property companies within the European Union

Bachelor thesis within international accounting

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Jönköping January 2009
Acknowledgements

The authors would like to thank their tutor

Urban Österlund

for his patience, guidance and support during all the steps of this thesis.

Jönköping, January 2009

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Date: January 2009

Subject terms: IAS 40, investment properties, accounting, harmonization

Abstract

Background: The increased globalization and trade over domestic borders within the European Union (EU) has lead to the implementation of new international accounting standards. This is necessary to create an effective capital market, where comparisons between companies located in different countries can be made, due to a more harmonized accounting. Obstacles to overcome when establish a more harmonized accounting in the EU is for example different accounting backgrounds and valuation methods.

Purpose: The purpose of the thesis is to as far possible study whether the establishment of IAS 40 contributes to an increased harmonization and more comparable accounting of investment property for listed companies within the EU.

Method: This thesis involves both a quantitative –and a qualitative research method. We have used primary data in forms of interviews, and secondary data in forms of annual reports, regulations, literature and articles in the thesis. Using both primary –and secondary data results in a higher reliability and validity.

Frame of reference: There are two alternative valuations methods according to IAS 40, the cost –and the fair value model. The cost model means a valuation to historical cost minus depreciation. Valuation in compliance to the fair value model on the other hand means that the investment property shall be valuated to market value. When using the cost model a note of the fair value shall be included in the financial statement. A company has according to IAS 40 the possibility to choose between internal –or external valuation when estimating the fair value.
Empirical results and analysis: Our empirical result is presented mainly through annual reports from listed investment property companies in Sweden, England and Germany. We found that the fair value model was used by all the analysed companies in Sweden and England in 2005, the year of the implementation of IAS 40 in the EU. By analysing the annual reports from the investment property companies we found indications that the fair value model also tends to become the generally excepted valuation model in Germany. Furthermore, our empirical result shows that a majority of the Swedish investment property companies regularly used internal valuation, but there is a pattern of external valuation as a complement to the internal valuation. In England and Germany all investment property companies used external valuation and there was no use of internal valuation even as a complement to the external valuation.

Conclusions: Based on our empirical results we draw the conclusion that the accounting for listed investment property companies within the EU is more harmonized and comparable today than before the implementation of IAS 40 in 2005. However, IAS 40 gives the companies the possibility to decide weather to use the cost –or the fair value model and the use of external valuation is optional. This can be viewed as obstacles to achieve a total harmonization of the accounting within the EU for listed investment property companies. From our empirical findings we draw the conclusion that the fair value model tends to become the generally excepted valuation model within the EU. Also, we do not perceive the use of the cost model as a barrier to the harmonization process because the fair value still has to be left in a not in the financial statement. However, we believe that in order to achieve a more harmonized and more comparable accounting for listed investment property companies within in the EU a directive about a minimum of external valuation must be included in IAS 40. This in order to avoid companies to use only internal valuation of the properties as this may effect the result.
Abbreviations

EU European Union

FASB Financial Accounting Standards Board

HGB Handelsgestezbuch

IAS International Accounting Standards

IASB International Accounting Standards Board

IASC International Accounting Standards Committee

IFRS International Financial Reporting Standards

IFRIC Financial Reporting Interpretations Committee

SAC Standards Advisory Council

RR Redovisningsrådets Rekommendationer / Standards issued by the Swedish Accounting Standards Council

ÅRL Årsredovisningslagen / Annual Accounts Act
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1 Introduction

1.1 Background

The EU has tried to overcome the differences between countries in their way of doing their accounting. The European parliament decided in 2002 that all listed companies within the EU should apply international accounting standards, formed by IASB, in January 2005. One of the primary goals that are set by the EU is to create a homogenous market with an effective capital market that creates growth and employment. International accounting standards are therefore necessary to make comparisons between countries and companies (Artsberg, 2005). Normal for today’s accounting is that it tends to become more international and harmonized. The reason for this is to achieve a higher level of unification between the accounting principles for companies around the globe. The outcome is a greater level of transparency (Nilsson, 2002).

IASB is a private international organization with the purpose to create a comprehensive high quality collection of accounting standards that shall be able to use all around the globe (IASB, 2005). The intention is to make it easier to compare annual reports between companies no matter of their origin. The accounting standards given out before April 2001 is called International Accounting Standards and the one’s given out afterwards are called International Financial Reporting Standards (Nilsson, 2002). The EU gives the member states the possibility to decide themselves if the IASB-regulations should be compulsive for all companies or only for listed companies (Pramhäll & Wikerfeldt, 2004).

The new accounting standard for listed investment property companies implemented in the EU is called IAS 40 - Investment Property. IAS 40 gives the listed investment property companies the option to valuate the investment properties based on the fair value model or on the cost model. Furthermore, IAS 40 gives the companies the possibility to choose between internal –and external valuation of the investment properties.

There are two major accounting traditions within the EU, namely the Anglo-Saxon –and the Continental accounting tradition. These traditions have basic fundamental differences. IASB’s regulations derive from the Anglo-Saxon accounting tradition. Countries that traditionally have used the Continental accounting tradition, including Sweden, has during the
last decades started adjusting to the Anglo-Saxon accounting tradition. This is a result of, among others, the increasing number of multinational companies that have been listed on foreign exchange markets and an international market adjustment mainly based on the Anglo-Saxon accounting tradition (Smith, 2006). IAS 40 gives the listed investment properties companies in the EU a common accounting standard.

1.2 Problem

The IASB is committed to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in the financial statements (IASB, 2005). Therefore, it is interesting to study if the implementation of IAS 40 corresponds with the purpose set by IASB.

Aspects that will be discussed in the thesis are:

- According to IAS 40 there are two possible alternative valuations methods, the cost model and the fair value model. Will this option between two valuation methods effect the harmonization?

- Different historical accounting traditions. Within the EU there are two major accounting backgrounds, the Anglo-Saxon –and the Continental tradition. These two traditions have a different way of looking at the purpose of accounting. How do these different accounting traditions affect the harmonization process for listed investment property companies within the EU?

- Harmonization can be measured at de jure-level and de facto-level. The de jure harmonization means that the same standards and laws are used. The de facto harmonization concerns with how the accounting is actually done. The question is at which level the harmonization is fulfilled after the implementation of IAS 40.

- Possible differences between internal –and external valuation. Valuation can be done either internal or external according to IAS 40. One can question if this possibility combines with the idea of a comparable accounting.
1.3 Purpose

The purpose of the thesis is to as far possible study whether the establishment of IAS 40 contributes to an increased harmonization and more comparable accounting for listed investment property companies within the EU.

1.4 Delimitations

This thesis involves only listed investment property companies, all other companies will be left out. Moreover, the study involves only fifteen listed investment property. Five companies from each of the three chosen countries. Furthermore, the time frame of the investigation is limited to 2004 – 2006.

1.5 Disposition

Chapter 2 Method: Describes the method used in the thesis to solve the purpose, or in other words the method used to help us tackle our problem. We also define different research strategies, quantitative –and qualitative research methods. This follows by a section about our data collection. Furthermore, we describe the method for choosing which companies to be part of our research. Next follows a section about reliability and validity. The method section ends with a summary of the chosen research method.

Chapter 3 Frame of reference: This chapter explains the purpose and harmonization of accounting, it also describes accounting standards for listed investment property within the EU. Different accounting traditions are discussed with focus on the three chosen countries:

- Sweden,
- England and
- Germany.

Previous accounting rules in these countries are also presented. This contributes to a deeper understanding of the empirical findings and the analysis.

Chapter 4 Empirical results and analysis: This chapter presents the data from the financial statements of the chosen investment property companies and the analysis of the data pre-
sented. The chapter also contains a compilation of the primary data received from the interviews. The focus of the analysis will be on our empirical results.

Chapter 5 Conclusions: Conclusions will be drawn based on the purpose of the thesis stated in section 1.3. The authors’ reflections on the result and critique of the thesis will also be presented. Finally, suggestions to further research will be presented.
2 Method

2.1 Introduction

This section presents what methods we are using for answering the research question and why we use these methods. The method section starts with comments on the quantitative – and the qualitative research methods. This is followed by a presentation on primary –and secondary data. This section also brings up the process of choosing which companies to be part of our study. Next follows a section about reliability and validity. Finally, there is a section of source critique.

2.2 Research strategy

A research method is according to Holme (1997) a tool to achieve the purpose. In others words its helps us to achieve a better understanding. Writers usually talks about two different types of research methods, a quantitative –or a qualitative research strategy. As Bryman (2005) says there is a possibility to use a combination of both methods in a study. In literature there has been a discussion about the differences between these research methods. Some writers believe that there are no differences and therefore no reason to make any distinction between them (Layder, 1993). A bit simplified explanation is that the difference lies in the way of handle and analyze information and materials.

2.2.1 Quantitative –and qualitative research method

The quantitative research strategy stresses the quantification in the collection and analysis of data. The analyzing part involves numerical data, numbers and statistics. The method is formal and well structured and samples tend to be fairly large. Furthermore, researchers know in advance what they are looking for and use hard reliable data. This method is good for theory testing. The purpose with the quantitative research method is to classify features and try to explain what is observed (Bryman, 2005).

The qualitative research strategy on the other hand stresses words in the collection and analysis of data. This research is to prefer when researchers only knows roughly what they are looking for. The qualitative research method is good to use in early stages of a research. This method involves the understanding of human behavior. Samples tend to be much smaller.
than in quantitative research methods. This method is distinguished by the closeness between the researcher and the source where information is collected. The aim with the qualitative research method is a complete and detailed description of the research question (Bryman, 2005).

The table below provides the reader with a summary of the most common differences between the quantitative—and the qualitative research strategy:

<table>
<thead>
<tr>
<th>Quantitative</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numbers</td>
<td>Words</td>
</tr>
<tr>
<td>Point of view of researcher</td>
<td>Points of view of participants</td>
</tr>
<tr>
<td>Researcher distant</td>
<td>Researcher close</td>
</tr>
<tr>
<td>Theory testing</td>
<td>Theory emergent</td>
</tr>
<tr>
<td>Static</td>
<td>Process</td>
</tr>
<tr>
<td>Structured</td>
<td>Unstructured</td>
</tr>
<tr>
<td>Generalization</td>
<td>Contextual understanding</td>
</tr>
<tr>
<td>Hard, reliable data</td>
<td>Rich, deep data</td>
</tr>
<tr>
<td>Macro</td>
<td>Micro</td>
</tr>
<tr>
<td>Behavior</td>
<td>Meaning</td>
</tr>
<tr>
<td>Artificial settings</td>
<td>Natural settings</td>
</tr>
</tbody>
</table>

*Table 1. The quantitative and the qualitative research methods (Bryman, 2005).*

As shown in the table there is some basic differences between a quantitative—and a qualitative research method. Still it is not clear from the table above were to draw the line between the two different research methods. Experts in the area are not united in this question (Bryman, 2005).

### 2.2.2 Our choice of research method

We believe that we have used a combination of the quantitative—and the qualitative research methods during this study. In this research we investigate if IAS 40’s new accounting standards have lead to a more comparable and harmonized accounting. The qualitative research method is to prefer when knowing what to look for. Furthermore, in the thesis we mainly analyze annual reports. The quantitative research method is good for generalize information so that it’s easy to make a distinction about what is typical and what is deviant, why a quantitative study is to prefer. On the other hand we are studying a relatively small sample of listed investment property companies, why a qualitative study is to prefer. This shows that a combination of
the quantitative – and the qualitative research methods is to prefer to fulfill the purpose of the thesis.

2.3 Method for data collection

2.3.1 Primary data – and secondary data

There are two ways of gathering information, either through primary – or secondary data (Holme & Solvang, 1997). These methods for collecting data can be used separated or in a combination.

All information that already exists is secondary data (Holme & Solvang, 1997). This means that we do not produce any documents of our own, we only use official documents. When using already available documents deriving from domestic and foreign listed investment property companies we are doing a document study. Our main secondary data is in forms of annual reports. However, we also use secondary data in forms of regulations, accounting standards, literatures and articles. The secondary data increases the reliability toward our analysis and conclusions.

Primary data is new and collected by you for the specific research. Examples of primary data are interviews and questionnaires. The central idea with primary data is that it is unique and that no one else has access to the same information (Holme & Solvang, 1997). We complement our study of the annual reports with interviews to achieve a higher validity in the thesis. We strive for the best available sources and therefore there is no need for a large scale interview, but rather a smaller scale interview toward a small population of reliable sources. The same questions are sent to all involved Swedish accounting companies and to external valuation companies for a larger synchronization. For the sake of simplicity and effectiveness e-mails are used to send and collect the information. There are seven questions all together. More questions could have a negative effect in the way of less people answering the questions due to the time it would take to answering the questions. Furthermore, all questions refer and are relevant to our purpose.

2.3.2 Method for choosing companies

All companies included in this thesis originate either from Sweden, England or Germany. This thesis only works toward listed investment property companies. This corresponds to
IAS 40. According to IAS 40 is an investment property company a company that invests in properties either to earn rentals or capital appreciation or both.

This study involves fifteen companies from the three chosen countries. To select which investment property companies to include in the thesis we did a random selection of five listed companies from each country. All companies including in this study are introduced in appendix 1.

2.4 Reliability and validity

Reliability and validity are important criteria’s when evaluating the research. Reliability does first and foremost have to do with issues of consistency of measures. In other words it measures if the results of a study are repeatable. Validity on the other hand concerns the integrity of the conclusions of a research (Bryman, 2005). High reliability and validity is a condition for the result of our thesis to be applicable on other investment property companies within the EU.

We considered different factors to achieve a higher reliability in our thesis, including studies of accounting standards, literatures, articles and annual reports. Annual reports from three years, one year before the implementation of IAS 40 and two years after, have been carefully studied. When studying annual reports from two years after the implementation we seek to achieve a larger stability of our result. Furthermore, secondary data such as accounting standards and annual reports are trustful compared to many other forms of data. This gives our study a higher reliability and a result that is stable over time. Therefore, we believe that this study is repeatable when comparing other listed investment companies within the EU.

To fulfill our ambition of high validity we have studied adequate literatures and previous research related to the topic. Furthermore, interviews of knowledgeable people in the accounting profession have been carried out to increase the validity.

2.5 Source critique

It’s of great importance to have a distance and be critical of the data collected for the research. Secondary data used in the thesis is for example regulations, accounting standards and annual reports. Regulations and accounting standards are reliable sources of data. An-
Annual reports are also in general a reliable form of data. This is due to those annual reports for listed companies needs to be approved by an auditor.

When using primary data in forms interviews and e-mailing the questions there are several potential risks. One is that the answer may have come from someone not capable of answering the question. Another risk is that there might be misunderstandings between us and the person that are supposed to answer the question. Furthermore, there is a risk of not receiving answers at all.
3 Frame of reference

3.1 Introduction

This chapter starts with an overall view of the purpose of the financial statement, harmonization of the accounting and the implementation of the IASB’s standards in the EU. Next follows a presentation of the different accounting traditions and prior accounting histories of the chosen countries. Furthermore, information about IASB and the standard IAS 40 is presented. This chapter contributes to a deeper understanding of the empirical results and the analysis in chapter 4.

3.2 Purpose of financial statement

The financial statement communicates economic information about the company to decision-makers within and outside the company (Westermark, 2005). It is the company’s single most important information to people outside the company.

The most common users of the economic information are owners, creditors, costumers, competitors, employees, state and local authorities. The use of the financial statement is various. The owners have a tendency to use the information to evaluate the corporate management and in stock-trading decisions. The suppliers and creditors are instead more likely to pay attention in the company’s payment capability (Smith, 2006).

It is of importance to create the external accounting in a way that communicates the information that the users seek, the information is only valuable if it helps the readers to make decisions that are better then they would have done without the information. The financial statement shall communicate useful information and a true and fair value of the financial position of the company (Flower, 2002).

3.3 Harmonization of accounting

The boost in the international trade over the previous decades ha lead to that harmonization, the reduction of differences in the financial reporting, in international accounting is becoming more important. Several companies are today listed on different exchange markets world wide. External accounting intended for an international public is common today.
and the capital market has a need to compare financial statements from companies from different markets (Nilsson, 2005). Lack of comparability in the financial information can be an obstacle to cross-border investments. In other words there are several forces striving for an increased harmonization of accounting.

Even though financial statements have readers from countries all over the world all studies show that the international accounting still is far from harmonized. A problem for countries with different accounting traditions to accept the same accounting principals is a fact (Artsberg, 2005).

There are two levels of harmonization. The first is the de jure-level and the second is the de facto-level. De jure-level deals with the harmonization of the accounting regulations while de facto-level deals with how the companies in fact do their accounting. The de jure-level has three different strategies for harmonization. The first is standardization; this is to incorporate rules that give no options in the accounting. The second strategy is equivalent rules with information in notes. The third is to give the companies different options, but still point out the preferred alternative. IASB uses the last alternative. One of the reasons for this is that IASB is a private organization and only has the authority to give out recommendations. To keep its reliability different options in the accounting had to be accepted. The IASB standards received a boost position in 2005 due the implementation in the EU (Artsberg, 2005).

### 3.4 Implementation in the EU

In the multicultural Europe there are several different views of the purpose of accounting, this has lead to diverse accounting solutions throughout the continent.

Accounting solutions are created as an interaction between different interested parties. The accounting problems obtain diverse solutions in different countries because interested parties influence differs around the globe. Cultural aspects probably say more about how the regulation of the accounting are applied than the context of the accounting regulations (Artsberg, 2005). The differences in the accounting are obstructions in harmonization of the accounting in the EU.

The EU has worked for a long time for a harmonization of the financial statements between the member states. One of the reasons for this is to get homogenous and reliable fi-
nancial information from companies, this can facilitate the free flow of goods, services and capital within the EU. The fourth and the seventh company law Directives are the work that previous has been most relevant to accounting in the EU (Nobes, 2004). The work received critique for being deficient and giving the countries within the EU to many accounting options. The gaps and the options were interpreted in dissimilar ways and created different practices throughout the EU (Artsberg, 2005).

In 2002 the European parliament decided that the EU shall adapt to accounting standards set out by IASB. All listed companies within the EU are from January 2005 required to use the IFRS/IAS accounting standards in their financial statements. This fundamental change means that IAS/IFRS replace the previously used nation standards. IAS 40 - investment property is a part of the IAS/IFRS accountings standards (Nilsson, 2002).

The implementation of IAS/IFRS lead to that the de jure-level is harmonized for listed investment property companies in the EU. Interesting is therefore to find out if also the de facto-level is harmonized.

3.5 The Anglo-Saxon –and the Continental tradition

3.5.1 Accounting traditions

In international accounting there are two main traditions, the Anglo-Saxon –and the Continental tradition. These two traditions have a very different way of looking at the purpose of accounting. Which accounting tradition a country belongs to is based upon historical-, economical-, institutional- and cultural factors.

Explained in a concise manner the Anglo-Saxon tradition is usually linked to those countries using the common law legal system, while the Continental tradition is connected to those countries that use the German and Roman legal system. A review of the accounting traditions is relevant since it helps to understand the harmonization process in the countries studied in this thesis.

3.5.2 Anglo-Saxon tradition

Compared with the Continental accounting tradition the Anglo-Saxon tradition is considered to be more informative, open and less cautious (Artsberg, 2005). Among others Eng-
land, USA, Ireland, Netherlands and Australia have an accounting history connected to the Anglo-Saxon accounting tradition. In these countries accounting is only regulated by laws in a small extent (Smith, 2006). Instead accounting is regulated through cases from the court and customs and praxis which have been developed in the private sector and are generally not cogent (Artsberg, 1992). This has to do with that the Anglo-Saxon accounting tradition is based upon common law or case law. This tradition is mostly developed by private professional accounting organizations and has a non-bureaucratic design.

A distinguished feature in Anglo-Saxon countries is that they have large and strong stock markets since companies in these countries are listed to a wide extent and the most common way of financing is the stock markets. Because of this companies get a large amount of owners from the outside. Since these owners usually don’t get any internal information the only way for them to get information is through the company’s financial reports (Artsberg, 1992). Therefore, the Anglo-Saxon accounting theory is primary designed to provide relevant information to the investors and shareholders so that they can evaluate risks and cash flow and so on (Nilsson, 2002). This tradition has a more open approach towards the market, not only financial information is shared but also non-financial information.

The main objective of this accounting tradition is to have an accounting that is true and fair, which some times may lead to that a company can ignore the national laws (Smith, 2006). As you will see below this differs a lot from how the companies in countries using the Continental tradition thinks and behave.

### 3.5.3 Continental tradition

The Continental accounting tradition includes more or less all of the western European countries, except the ones in Anglo-Saxon tradition. In difference to the Anglo-Saxon tradition, the Continental tradition derives from code law or civil law, originated from Roman law, which emphasizes that there should be a wide set of laws to cover all potential situations that can occur (Smith, 2006). So instead of having a quite flexible legal system that is generally based upon cases and customs this tradition is primarily regulated by written law and has a much more bureaucratic design. This is one of the main differences between the Continental–and Anglo-Saxon accounting tradition.
The importance of a wide set of laws concerning accounting in Continental countries furthermore derives from another distinguished difference from the Anglo-Saxon tradition, which is that the government, banks or families usually have the decisive ownership influence in companies. Since the investors and owners are few and usually get internal information this tradition is primary designed to fulfill the demand of the creditors (Smith, 2006). To protect the creditors in the best way there are written laws which regulates how the financial information must be.

<table>
<thead>
<tr>
<th>Listed companies (domestic market) / population (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
</tr>
<tr>
<td>Great Britain</td>
</tr>
</tbody>
</table>

*Table 2. Size of the stock market in relation to population 2003 (Nobes and Parker, 2004).*

As shown in the table above there is a vast difference between the stock market in Germany and England when it comes to listed companies per population. This corresponds to what have been discussed above.

To provide further help for the creditors the so-called precautionary principle is the dominating accounting principle. It means that companies have to be precautious when valuing their i.e. assets and debts (Smith, 1997).

Moreover, in countries which use the Continental tradition there has often been a connection between tax law and accounting reports.

“A major barrier to convergence of national standards with IFRS appears to be that most continental European countries have historically linked their financial reporting and tax laws.” (Larsson and Street, 2004).

### 3.6 Accounting history

#### 3.6.1 Sweden

Sweden with its small population has an economy that has been dependent of international trade and capital. A result of this is that Swedish accounting tradition also has been influenced by other countries. England, Germany and USA have influenced Swedish accounting the most (Artsberg, 2005).
In the beginning of the 1900’s Swedish accounting was mainly influenced by the German accounting. German was for Sweden at this point the first foreign language and the countries had a strong cultural connection. The German accounting tradition is primarily aimed for creditors of the companies. The US accounting tradition started to spread in Sweden during the 1960’s. This tradition is primarily intended for stockowners (Artsberg, 2005).

At the entrance of the EU in 1995 Sweden had to accept accounting directives from the EU. These were mainly influenced by the British accounting solutions. Also the IASB accounting standards implemented in the EU in 2005 are strongly influenced by the British accounting tradition (Artsberg, 2005).

Until the last decades Sweden belonged to the Continental accounting tradition. Resulting in an accounting that primarily is focused to serve the tax interest of the state and the interest of creditors (Smith, 2006).

Prior to the implementation of IAS 40 listed Swedish investment property companies used the Annual Accounts Act (ÅRL) and a Standard issued by the Swedish Accounting Standards Council (RR 24) for accounting of investment property. The ÅRL is from 1995 and contains information about how to establish the financial statement.

RR 24 was implemented 2003 with the purpose to show how investment property shall be accounted and what information that has to be noted in financial statement (RR 24:1). The Swedish Accounting Standards Council gives out recommendations that are based on the IAS/IFRS standards as far as they are compatible with ÅRL (Smith, 2006). RR 24 is based on the standard IAS 40 - investment property. This IASB standard gives the opportunity to use either the fair value model or the cost model. The fair value model is not allowed according RR 24 since ÅRL don’t allow the fair value model. Information about the fair value must still be left in a note in the financial statement (IASB, 2005). The recommendation RR 24 did not make the Swedish investment property companies obliged to use external valuation.

3.6.2 England

About 150 years ago England was the leading industrial power in the world. England is still today one of the larger actors in the global economy. Financial reporting is largely influenced by company law and accounting standards. The financial reporting derives from the Anglo-Saxon tradition and is primarily intended to provide shareholders with economical
information rather than tax authorities and creditors (Nobes, 2004). English accounting has focused to provide the readers with information that are based on a true and fair view. The English accounting are not closely linked to tax regulations as in Germany (Schwenke, 2002).

From 2005 listed companies in England must change from the prior used accounting rules, UK GAAP, to the accounting standards given out by IASB. Before the implementation in 2005 listed companies had to valuate the investment property to market value (Nobes, 2004). The investment properties also had to be externally valuated at least every five years. The internal valuation during the other years had to be conducted by a recognized professional person.

### 3.6.3 Germany

Germany is a leading power in the globalization of the world economy and is the third largest economy in the world. The German accounting is linked to the Continental accounting tradition and has influenced the accounting in several countries in Europe (Flower, 2002). German accounting has a tradition of valuation to historical cost and a conservative measurement of expenses and earnings. Tax regulations have been closely linked to the accounting in Germany (Nobes, 2004).

For financial reporting the main source of accounting rules are the commercial code, known in Germany as the Handelsgestezbuch (HGB). This makes the German accounting primarily controlled by commercial code and not by accounting standards set by accountants. The HGB was revised and expanded during 1985 as a result of the implementation of the EU’s fourth and seventh directives into German law. Listed German companies also needs additional rules besides of the HGB (Alexander, 2004).

From 1998 it is possible for listed German companies to create their consolidated financial statement in accordance with internationally recognized rules instead of the HGB (Alexander, 2004). This implies that it has been possible for listed investment property companies to use the standards set by IASB since 1998.
3.7 IASB

3.7.1 Background

The IASB is today the most domination international accounting body. This private international organization has a mission to harmonize and improve global accounting through creating international accepted accounting standards called IAS/IFRS (Nilsson, 2005). The organization was created in 1973 and was then called IASC, but a change of the name to IASB was done in a reorganization in 2001 (Artsberg, 2005). The standards given out by IASC are called IAS and standards given out after the reorganization are named IFRS (Nilsson, 2005).

The board of directors of IASB has 14 members; these represent different categories of people with interest in accounting. At least five of the members are working accountants, a minimum of three must have a background as financial managers, and at least one shall have academic background. Three members must come from a group that represents users of financial statements. The members of the board mainly come from the Anglo-Saxon countries. Japan, France and Germany are also represented. The former Volvo financial manager Jan Engström became the first Swedish represent of IASB in the year 2004 (Nilsson, 2005).

The most important agencies within IASB are the Standards Advisory Council, SAC and the International Financial Reporting Interpretations Committee, IFRIC. The members of SAC are consulted by IASB when there are major changes in the standards. The 12 members of IFRIC give out comments and interpretations of the IAS/IFRS standards (Nilsson, 2005).

3.7.2 IASB`s framework

The IASB strives to decrease differences in the financial statements through a harmonization of the regulations, accounting standards and methods that are associated with the creation of the financial statement.

The IASB`s Framework for the Preparation and Presentation of Financial Statement is a document that helps the preparation and presentation of the financial statements (Flower, 2002). One intention with the framework is to support IASB in the creation of new standards and in
reconstruction of already existing IAS/IFRS standards. The framework is also made to support the creation of financial statements and to help out users in the interpretation of the economical information. Advice to handle questions that not are to be found in the standards and information about underlying reasoning in the creation of existing IAS/IFRS standards can also be found in the IASB´s Framework (Flower, 2002).

3.7.3 The qualitative characters of financial statement

The IASB´s framework declares IASB´s approach to financial reporting. People with interest in a company need information and therefore has IASB formulated qualitative characters in the IASB´s framework (Flower, 2002).

Qualitative characters are the attributes in the financial statement that makes the information valuable to the users; it is the base for the credibility of the accounting. Understandability, relevance, reliability and comparability are the four single most important qualitative characters (Westermark, 2005). These characters intend to give a true and fair value of the companies’ financial statement.

![Figure 1 – Characters that effect true and fair value.](image-url)
Understandability

The first qualitative character presented in the IASB’s framework is understandability. It is of great importance that the information in the financial statement is understandable to its users.

The users of the information are though assumed to have pre-knowledge of business and accounting and that they are reasonable. Information that can be complex to understand for some users shall not be excluded due to its difficulty, if it can be valuable for other readers of the financial statement (Artsberg, 2005).

Relevance

The information in the financial statement must be useful for decision making at the capital market to be relevant. The information is relevant when it helps to confirm or adjust conclusions from the past and when it helps economical decision making concerning today and about the future (Westermark, 2005).

Prediction relevance is when the information can be used for future predictions. This can be investment decisions or buy and sell decisions at the stock market (Smith, 2006).

Feedback relevance is when the financial statement is used to control prior prognoses and the control can affect the following prognoses and decision makings (Smith, 2006).

Reliability

Reliability is the third qualitative character in the IASB’s framework. Reliability is the capacity to portray economical reality within the company. The data must be free from material error and bias (Westermark, 2005).

Reliability is synonymous with validity and the ability to verify. Validity means that the information reflect what the users expect it to reflect, while the ability to verify is the possibility to verify the degree of fullness in the financial statement (Smith, 2006).

Comparability

Comparability between financial information is of great importance to the users. The information must be comparative over time and between enterprises. This means that the methods of measuring and presenting numbers require constancy over time, within the company and between companies (Flower, 2002).
The readers must be informed about used accounting polices and changes in them to be able to compare the financial statements over time. Readers also appreciate if comparable information from previous financial statements is presented (Flower, 2002).

The demand of comparability does not mean that companies can ignore new laws and recommendations, but they are required to show how changes have affected the financial position.

### 3.8 IAS 40 – investment property

The standard IAS 40 shall be used by all listed investment property companies within the EU in the financial statement. IAS 40 has the purpose to show how investment properties shall be accounted and what information that need to be included in the financial statement.

The definition of investment property according to IAS 40 is:

> "Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both”.

(IAS 40, p. 5)

The standard also tells that the investment property can only be recognized as asset in the balance sheet when it likely that forthcoming economic benefits associated to the investment property will fall to the company. It is also necessary that the property cost can be reliably calculated (Westermark, 2005).

The first valuation of the investment property shall be at cost model, which is price of the purchase and cost directly linked to purchase. In the forthcoming valuation IAS 40 allows to choose between the fair value model and the cost model. The same model must be used for all of the investment property of the firm and a switch from fair value model to the cost model is very unlikely to take place ([http://www.iasplus.com](http://www.iasplus.com)).

Expenses for maintenance of the property shall be accounted in period it occurs as cost (IAS 40 p. 18). However, expenses that increase the value of the investment property shall be accounted as a part of the value of the property (IAS 40, p. 19).
The financial statement must contain information about the chosen method. Information of the method to establish the fair value must be left in the financial statement (Westermark, 2005).

IASB recommend the use of the fair value model (Artsberg, 2005). A benefit with the fair value model according to IASB is that it gives a more fair view of the value of the property than the cost model.

If the cost model is chosen, the fair value of the investment property still has to be left in a note in the financial statement. Despite chosen model it shall be noted in what extension the fair value of the investment property is estimated by an independent external valuer (Smith, 2006).

### 3.8.1 Valuation methods

The valuation of the investment property is based on assumptions and the valuers have to take many factors into consideration. This implies that there are always elements of uncertainty in the valuation and different valuers can get to different values.

When valuating at market values it is not rare with fluctuations of +/− 10 percent in valuation (Persson & Nordlund, 2003). The market values also vary over time. If the valuation is done on market with similar properties that are easy to compare, the uncertainty in the appraisal of the investment property can be decreased.

IAS 40 allows listed investment property companies to choose between two valuation methods, namely the cost—and the fair value model (Smith, 2006).

**Cost model**

The cost model derives from IAS 16 - property, plant and equipment. The investment property shall be accounted as cost minus accumulated depreciation and minus accumulated impairment losses (Smith, 2006).

IAS 16 uses component depreciation. This mean that every property shall be divided in main components and shall separately be written off (Smith, 2006).

**Fair value model**
Fair value is according to the IAS 40 the price of the investment property that can be charged between two knowledgeable, from each other independent parties that has an interested in the occurrence of a transaction (Smith, 2006).

Losses or gains deriving from changes in the fair value of the property shall also be included in net profit or loss for the period in which it arises. This gives that no write-downs or depreciations shall be accounted (Smith, 2006).

The fair value must according to IAS 40 mirror real market conditions of the balance sheet date. IAS 40 states that;

“The best evidence of fair value is normally given by current prices on an active market for similar property in the same location and condition and subject to similar lease and other contracts” (IAS 40, p. 45)

In other words a comparison must be done with similar objects in a similar location. When a situation like this doesn’t exist the fair value can, according to IAS 40 p. 46, be measured according to one of the methods below;

1. Based on present prices of properties of a different kind at an active market the company adjusts the value of the properties,

2. Based on present prices of similar properties at a less active market the company adjusts the value of the properties. The adjustment is done to reflect changes in economic environment, and

3. The present values are calculated on estimated future cash flows.

In the unusual situation that the fair value can’t be measured reliably, the property can be accounted in accordance with the cost model in IAS 16 (IAS 40, p. 53). Information about why this is done shall be left in a note in the financial statement.

3.8.2 Internal – or external valuation

IASB only encourage using independent external valuers in the financial statement. This means that is free for the companies to choose weather they like to do an internal or external valuation of their investment properties. An independent external valuer shall according to IAS 40 have “recognized and relevant professional qualification” and also have experience and knowledge of the category and location of the apprised property (IAS 40, p. 32).
When valuation is done according to the fair value model, either primarily or secondarily in a note, the financial statement must reveal to which extent the fair value is based on valuation by qualified external valuers. The investment property companies shall also disclose if they have not used any external valuation (IAS 40, p. 75).

To increase reliability it is discussed if external evaluation of the investment properties shall be compulsory for all companies. Opponents to this idea draw the conclusion that a demand of external evaluation can not be a reality when the cost-benefit aspect is taken in consideration. Another aspect is that it can be hard to find external valuers with the demanded qualification available at all markets.
4 Empirical results and analysis

4.1 Introduction

This chapter presents our empirical results and our analysis. We present our relevant findings from each company’s annual reports separately and annually in the tables below. For the sake of simplicity we kept each country separately. The empirical study of annual reports is complemented with interviews shown in the end of this chapter. We decided to put the interview questions and the answers directly in the thesis so that the reader could have an easy overview of the questions and the answers. More facts about the investment property companies are to be find in appendix 1.

4.2 Sweden

4.2.1 Data

<table>
<thead>
<tr>
<th>MSEK</th>
<th>Castellum</th>
<th>Home properties</th>
<th>Hufvudstaden</th>
<th>Fabege</th>
<th>Wallenstam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal/external valuation</td>
<td>Internal 100%</td>
<td>Internal 100%</td>
<td>Internal 100%</td>
<td>External 100%</td>
<td>Internal 100%</td>
</tr>
<tr>
<td></td>
<td>External 54%</td>
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<td>External 21%</td>
<td></td>
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<td>Book value investment property, RR</td>
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<td>3 616</td>
<td>10 337</td>
<td>36 389</td>
<td>9 752</td>
</tr>
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<td>Fair value investment property, IFRS</td>
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<td>4 170</td>
<td>15 000</td>
<td>36 379</td>
<td>13 361</td>
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<td>320</td>
<td>664</td>
<td>1 413</td>
<td>833</td>
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<td></td>
</tr>
<tr>
<td><strong>taxes, IFRS</strong></td>
<td>916</td>
<td>402</td>
<td>771</td>
<td>1384</td>
<td>1262</td>
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**2005**

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<th>Fabege</th>
<th>Wallenstam</th>
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</tr>
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<td>Fair value</td>
<td>Fair value</td>
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<tr>
<td><strong>Internal/ext-</strong></td>
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<td>Internal 100%</td>
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<td>Internal 100%</td>
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</tr>
<tr>
<td><strong>investment</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
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<td></td>
<td>21 270</td>
<td>1 973</td>
<td>16 276</td>
<td>21 296</td>
<td>16 102</td>
</tr>
<tr>
<td><strong>Result after</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>taxes, IFRS</strong></td>
<td>1 294</td>
<td>1 156</td>
<td>1 334</td>
<td>2 666</td>
<td>1 635</td>
<td></td>
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</table>

**2006**

<table>
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<th>Home properties</th>
<th>Hufvudstaden</th>
<th>Fabege</th>
<th>Wallenstam</th>
</tr>
</thead>
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<td></td>
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<td></td>
</tr>
<tr>
<td><strong>principle</strong></td>
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<td>Fair value</td>
<td>Fair value</td>
<td>Fair value</td>
<td>Fair value</td>
<td>Fair value</td>
</tr>
<tr>
<td><strong>Internal/ext-</strong></td>
<td></td>
<td>Internal 100%</td>
<td>Internal 100%</td>
<td>Internal 100%</td>
<td>External 100%</td>
<td>Internal 100%</td>
</tr>
<tr>
<td><strong>ernal valuation</strong></td>
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<td>External 51%</td>
<td>External 35%</td>
<td>External 35%</td>
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</tr>
<tr>
<td><strong>Book value</strong></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td><strong>investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>property, IFRS</strong></td>
<td></td>
<td>24 238</td>
<td>2 283</td>
<td>17 409</td>
<td>27 188</td>
<td>18 279</td>
</tr>
</tbody>
</table>
4.2.2 Analysis

As shown above all the Swedish companies used the fair value model in 2005 and 2006. The use of the fair value model was not allowed before 2005 in Sweden due to regulations in RR 24. Still the fair value had to be given in a note in the financial statement. Four out of five Swedish companies regularly used internal valuation. However, there is a pattern of external valuation as a complement to the internal valuation. The IAS/IFRS standard gives an increased book value of the properties for four companies in 2004 in comparison to the use of prior Swedish regulations. The total book value of the investment properties for the chosen five companies shows an increase of around 18 percent when using the IAS/IFRS standards. An interesting observation is that the only single company with a lower book value of investment property when using IAS/IFRS standards is also the only company using exclusively external valuation.

4.3 England

4.3.1 Data

<table>
<thead>
<tr>
<th>MGBP</th>
<th>Hammerson</th>
<th>Liberty</th>
<th>Great Portland</th>
<th>Brixton</th>
<th>BLC</th>
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</thead>
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<tr>
<td>Internal/external valuation</td>
<td>External 100%</td>
<td>External 100%</td>
<td>External 100%</td>
<td>External 100%</td>
<td>External 100%</td>
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<td>Book value investment property, UK GAAP</td>
<td>4 608</td>
<td>5 313</td>
<td>798</td>
<td>1 552</td>
<td>10 982</td>
</tr>
<tr>
<td>Fair value investment property,</td>
<td>4 603</td>
<td>5 298</td>
<td>720</td>
<td>1 556</td>
<td>10 877</td>
</tr>
</tbody>
</table>

<p>| Result after taxes, IFRS | 1 674 | 312 | 3 423 | 2 266 | 2 007 |</p>
<table>
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<th>Brixton</th>
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<td>Fair value</td>
<td>Fair value</td>
<td>Fair value</td>
<td>Fair value</td>
</tr>
<tr>
<td>Internal/external valuation</td>
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<td>External 100%</td>
<td>External 100%</td>
<td>External 100%</td>
<td>External 100%</td>
</tr>
<tr>
<td>Book value investment property, IFRS</td>
<td>5 732</td>
<td>6 938</td>
<td>965</td>
<td>2 018</td>
<td>11 081</td>
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<tr>
<td>Result after taxes, IFRS</td>
<td>554</td>
<td>366</td>
<td>148</td>
<td>234</td>
<td>1 249</td>
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</table>

<table>
<thead>
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<th>Great Portland</th>
<th>Brixton</th>
<th>BLC</th>
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<td>Valuation-principle</td>
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<td>Fair value</td>
<td>Fair value</td>
<td>Fair value</td>
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<tr>
<td>Internal/external valuation</td>
<td>External 100%</td>
<td>External 100%</td>
<td>External 100%</td>
<td>External 100%</td>
<td>External 100%</td>
</tr>
</tbody>
</table>
4.3.2 Analysis

The fair value model is used by all the chosen English companies during 2005 and 2006. This was an expected result due to the fact that English investment property companies had to valuate its properties to market value according to UK GAAP before the implementation of the IAS/IFRS standards. The book values of the investment properties in 2004 shows that there are now significant differences in market valuation according to UK GAAP and fair value valuation according to IAS/IFRS. Every single one of the companies used exclusively external valuation in 2004 and this tradition continues after the implementation of IAS/IFRS standards in 2005. As shown in the table there are no use at all of internal valuation even as a complement to the external valuation.

4.4 Germany

4.4.1 Data

<table>
<thead>
<tr>
<th>2004</th>
<th>AIG International Real Estate</th>
<th>Deutsche Anninton</th>
<th>Deutsche wohnen</th>
<th>Deutsche Euroshop</th>
<th>IVG Immobilien</th>
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</thead>
<tbody>
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<td>Valuation-principle</td>
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<td>German accounting principals</td>
<td>Cost Model</td>
<td>Fair value</td>
<td>Cost Model</td>
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<td>Internal/external valuation</td>
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<td>N/A</td>
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<td>External 100%</td>
</tr>
<tr>
<td>Book value investment</td>
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</tr>
<tr>
<td></td>
<td>AIG International Real Estate</td>
<td>Deutsche Annington</td>
<td>Deutsche wohnen</td>
<td>Deutsche Euroshop</td>
<td>IVG Immobilien</td>
</tr>
<tr>
<td>---------------------</td>
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<td>------------------</td>
<td>-------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Valuation-principle</td>
<td>Fair value</td>
<td>Cost Model</td>
<td>Cost Model</td>
<td>Fair value</td>
<td>Cost Model</td>
</tr>
<tr>
<td>Internal/external valuation</td>
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<td>External 100%</td>
<td>N/A</td>
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<table>
<thead>
<tr>
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<tr>
<td>Book value</td>
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<td>investment</td>
<td>6 121</td>
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<td>property, HGB</td>
<td>817</td>
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<tr>
<td>IFRS</td>
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<td></td>
<td>2 801</td>
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<td>Result after</td>
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<td>taxes, HGB</td>
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<tr>
<td></td>
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<td>48</td>
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<table>
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</thead>
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<td>Book value</td>
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<tr>
<td>investment</td>
<td>1 602 (Cost model)</td>
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<td>property, HGB</td>
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<tr>
<td>IFRS</td>
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<td></td>
<td>2 399</td>
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</tr>
<tr>
<td></td>
<td>17</td>
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<td></td>
<td>17</td>
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<tr>
<td></td>
<td>28</td>
</tr>
<tr>
<td></td>
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</tbody>
</table>
4.4.2 Analysis

German investment property companies had the option to use the IAS/IFRS standards as early as in 1998. Four out of five companies used the IAS/IFRS standards in 2004, the remaining company used German accounting principals. Both the cost – and the fair value model are used by the companies, but as the data above shows Deutsche Annington switches from the cost – to the fair value model in 2006. Furthermore, the CEO of IVG said in the annual report of 2006 that:

“... As the fair value method is now accepted by the capital markets as best practice for measuring investment properties, IVG will switch to the fair value method in 2007.”

Our empirical findings show that the German companies, after the implementation of IAS/IFRS standards, are moving toward using the fair value model. Moreover, all companies that reported if they used internal or external valuers used solely external valuers. As shown in the table there are no use at all of internal valuation even as a complement to the external valuation.

4.5 Interviews

4.5.1 Introduction of respondents

Peter Samuelsson, Bryggan Fastighetsekonomi
Bryggan Fasighetsekonomi consists of a network of consultants with experience of issues concerning real estates. One of their key areas is commercial real estate valuation. Bryggan Fasighetsekonomi is located in Stockholm, Gothenburg and Malmö (www.bryggan.se).

Our respondent Peter Samuelsson works with valuation of real estate in the south of Sweden. Furthermore, he is working as a consultant in questions concerning real estate taxation and legal issues.

*Solveig Wadman, Home Properties*

Home Properties is a Swedish listed investment property company. They mainly invest in hotel properties. Home properties investment properties had a book value of 2 283 000 000 in December 2006 (Home Properties annual report, 2006). Solveig Wadman is Home properties Financial Director. She has worked in the group since 1998 (Home Properties annual report, 2006).

### 4.5.2 Questions and answers

Questions: Please type the number that best match your opinion.

1) IAS 40 has contributed to a more harmonized accounting in Sweden.

Don’t agree 1 2 3 4 5 Agree

No opinion 0

**Answers**

Peter: 0

Solveig: 3

2) Furthermore, IAS 40 has contributed to a more harmonized accounting within the EU.

Don’t agree 1 2 3 4 5 Agree

No opinion 0

**Answers**

Peter: 0

Solveig: 0
3) The implementation of IAS 40 gives a more true and fair value of the accounting.

Don’t agree 1 2 3 4 5 Agree
No opinion 0

Answers
Peter: 5
Solveig: 4

4) Different accounting cultures and accounting traditions influence how IAS 40 is applied within the EU.

Don’t agree 1 2 3 4 5 Agree
No opinion 0

Answers
Peter: 0
Solveig: 3

5) It is good that the standard allows valuation of the investment properties according both the cost –and the fair value model.

Don’t agree 1 2 3 4 5 Agree
No opinion 0

Answers
Peter: 3
Solveig: 3

6) It is good that there is a possible to choose between internal –and external valuation of the investment properties.

Don’t agree 1 2 3 4 5 Agree
No opinion 0

Answers
7) There are incentives or demands to use independent external valuers.

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<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
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<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Answers**

Peter: 3  
Solveig: 3

### 4.5.3 Analysis

The outcome from the interviews did not become what we expected it to be. We e-mailed the questions to several noted Swedish investment property companies and external valuers, but we only received answers from Peter Samuelsson and Solveig Wadman as shown above. Even though they are experts in issues concerning investment properties, we choose not to draw any far-reaching conclusions from their answers. This has to with the low answer frequency. Therefore, the interview answers provide a small input in our final result. Still, we wanted include the answers so that the readers can make their own reflections.
5 Conclusions

5.1 Result

The purpose of the thesis was to as far possible study whether the establishment of IAS 40 has contributed to an increased harmonization and more comparable accounting for listed investment property companies within the EU.

The purpose of IASB is to:

“Develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in the financial statements.” (IASB, 2005)

The harmonization process of accounting within the EU can be divided into two steps, the de jure-level and the de facto-level. The de jure-level is the initial step and means to incorporate accounting regulations that shall be applied by all the member states within the EU. This became a reality for listed companies through the implementation of the IASB’s standards in 2005. Provided that these standards are applied in the same way, the de facto-level is also harmonized. IAS 40 gives the listed investment property companies within the EU options in their accounting, i.e. the option to choose between the cost –and the fair value model and internal –or external valuation. Even though IASB states there preferred alternative one can question if this effect a complete harmonization of the de facto-level.

Our empirical study shows that all Swedish companies used the fair value model as of 2005, which was the year of the implementation of IASB’s accounting standards. The outcome was as expected the same for the chosen English companies. In England the market value/fair value model was used before the implementation of the accounting standards. In Germany listed companies has had the opportunity to use IASB’s standards and therefore choose between the cost –and the fair value model for ten years. The result from our empirical studies shows that companies in Germany tend to move toward using the fair value model. Our opinion is supported by the statement of the CEO of IVG who said that he believes that the fair value model is now accepted by the capital markets as best practice for measuring investment properties (IVG Immobilien, Annual report, 2006). Taken only the valuation methods in consideration our conclusion, based on our empirical studies, is that
there is an increased harmonization and more comparable accounting for listed investment property companies within the EU after the implementation of IAS 40.

The German accounting derives from the Continental accounting tradition which is closely connected to valuation to historical cost. We believe that the historical accounting background is the reason that not all selected German listed investment property companies used the fair value model. A major barrier to overcome for countries with the Continental accounting tradition is the close connection between accounting reports and tax laws in these countries. Our empirical studies show that this seems to have been solved in Germany's case. Also, tax law is by its nature forced to constantly change over time. Therefore, we believe that this will not play a decisive role over a longer perspective for the harmonization of accounting for listed investment companies within the EU.

According to IAS 40 can both internal—and external valuation be used by the listed investment property companies. Our empirical result shows the use of both internal—and external valuation. Swedish companies mainly use internal valuation, but in most of the companies are external valuation used as a complement. The investment property companies in England and Germany use only external valuation. According to IAS 40 should an external valuer have “recognized and relevant professional qualifications”, and also have experience and knowledge of the category and location of the appraised property. Nothing is said in IAS 40 about the qualifications of the internal valuer. It is our belief that the use of an internal valuer may affect the result in the financial statement. Therefore, one can question if the use of solely an internal valuer combines with the idea of a comparable accounting when using the fair value model. In order to fulfill the purpose of IASB we believe that a minimum use of external valuation should be included in IAS 40. Furthermore, we also believe that a requirement that the internal valuation should be conducted by a recognized professional valuer will increase the harmonization.

It is our belief that the implementation of IAS 40 has lead to an increased harmonization and more comparable accounting within the EU. As said before we believe that there is a tendency within the EU for listed investment property companies to use the fair value model. This includes investment property companies in countries with Anglo-Saxon accounting tradition as well as companies in countries with Continental accounting tradition. If not all listed investment property companies will use the fair value model, they still have to state the fair value of the investment properties in a note in the financial statement.
However, we believe that the option to choose between internal—or external valuation effect the reliability and comparability of the financial statements. These are stated by IASB to be qualitative characters and therefore affect the true and fair value of the financial statement. This is not coherent with a more harmonized and more comparable accounting. It’s our conclusion that the implementation of IAS 40 has lead to an increased harmonization and a more comparable accounting within the EU for listed investment property companies. However, the de facto-level is not entirely fulfilled, i.e. the listed investment property companies do not use IAS 40 in the same way.

5.2 Critique of the study

In the study we had annual reports as our main source of information for the analysis. To achieve a higher validity and reliability our intention was to complement the annual reports with a small scale interview. The interview questions were carried out trough e-mails to listed investment property companies and to external valuers. Based upon the amount of received answers the outcome of the e-mail interviews must be seen as a failure. With only two answers received we were not able to draw any further going conclusions from the e-mail interviews. With this knowledge we believe that the interviews should have been carried out differently.

When we started writing this thesis in the beginning of 2008 had not all annual reports from 2007 been released. Consequently, we decided not to include annual reports from 2007 in the thesis. Due to the fact that the study did not become finished until January 2009 an analyse of the annual reports from 2007 would have been possible.

5.3 Suggestions for further studies

We believe that it would be interesting to analyse the harmonization process in other countries within the EU. One suggestion would be to compare three other countries in the EU and compare the result of that study to the result in this study. The outcome would be a result with higher reliability and validity.

The IASB’s regulations were implemented in 2005. Therefore, a study made in a couple of years that can involve a longer time perspective would give a more valid result.
Today the economies of the chosen countries have entered a recession which was not a fact for the period analysed in this thesis. A study that involves the recession period would take into account any possible effect that a recession has on the valuation of investment properties. That study would answer if a recession contributes to an increased harmonization, have no effect on the harmonization or contribute to a decrease in the harmonization?

In this study we found indications pointing towards that the fair value model will be the generally accepted valuation method for investment properties within the EU. A suggestion would be to examine if this is a result of IASB’s standards or due to other factors.
References

Regulations and standards

IAS/IFRS.

Redovisningsrådets rekommendationer (RR).

Årsredovisningslagen (ÅRL).

Annual reports

Sweden

Castellum, annual reports 2004-2006.

Fabege, annual reports 2004-2006.


Hufvudstaden, annual reports 2004-2006.

Wallenstam, annual reports 2004-2006.

England

BLC, annual reports 2004-2006.

Brixten, annual reports 2004-2006.

Great Portland, annual reports 2004-2006.

Hammerson, annual reports 2004-2006.

Liberty, annual reports 2004-2006.

Germany

AIG International Real Estate, annual reports 2004-2006.

Deutsche Annington, annual reports 2004-2006.

Deutsche Euroshop, annual reports 2004-2006.

Deutsche Wohnen, annual reports 2004-2006.

Literature


**Internet**


Appendix 1. Information about the companies

Swedish

1. Castellum

Castellum, with their main office in Gothenburg, is one of the larger listed investment property companies in Sweden. The value of Castellum’s property holding was at the end of 2006 SEK 24 billion and consists of 515 properties. Castellum is listed on the OMX Large-Cap at Stockholm Stock Exchange and have a stock value of 15 billion Skr. (Castellum annual report, 2006)

2. Home properties

Home properties invest primarily in Hotel properties within large cities. The value of Home properties property holding was at the end of 2006 around SEK 2,3 billion. (Home properties annual report, 2006)

3. Hufvudstaden

After the start in 1915 Hufvudstaden swiftly became a well-known and a leading property company in Sweden, and still is today. The properties are centrally located in Stockholm and Gothenburg. The result after taxes in 2006 were SEK 3.423 million and the investment properties had a fair value of SEK 17.4 billion. (Hufvudstaden annual report, 2006)

4. Fabege

Fabege is one of the main actors at Stockholm’s real estate and rent market. The Stock is listed at Large-Cap at Stockholm Stock Exchange. The market value of SEK 18.5 billion makes it the largest listed investment property company in the Nordic. At the end of 2006 the property holdings were 174 properties with a market value of SEK 27.2 billion. Faberge’s capital stock was at the same time SEK 5.03 billion. The largest shareholders owned together about 40% of the total capital stock. (Fabege annual report, 2006)

5. Wallenstam

Wallenstam has centrally located properties in Stockholm, Gothenburg and Helsingborg. The roughly 300 properties with a book value of SEK 18.3 billion are 60% residential properties and 40% commercial properties. The profit for 2006 was SEK 2.007 billion. (Wallenstam annual report, 2006)

English

1. Hammerson

The Hammerson group invests in, managers and develops shopping centers, offices and retail parks. The investments are both in the UK and in France. Hammerson view them selves as one of the top performing property companies in the UK. The investment properties were valued to £6.7 billion in December 2006. (Hammerson annual report, 2006)
2. Liberty
Liberty International was created in 1980 and is a large property company with investment properties valued to over £8.2 billion. Approximately 80% of the properties are shopping centers located in the UK. The result for 2006 was £1.564 billion. (Liberty annual report, 2006)

3. Great Portland
Great Portland Estates owns investment properties in the heart of London; these are valued to £1.3 billion. The company views London as the only true global city and financial centre in Europe. The result for 2006 was £383 million. (Great Portland annual report, 2006)

4. Brixton
Brixton has industrial and warehouse properties which are mostly located in the south east of England, the company focus on the west London and Heathrow markets. The investment properties had a book value of £1.85 billion and the company generated a result of £299 million in 2006. (Brixton annual report, 2006)

5. BLC
The British Land Company was founded in 1856 is one of the largest property companies in the UK. The company invests in prime and modern properties in the retail and office sector. The investment properties are valued to £12.9 billion and the company had a profit of £2.45 billion in 2006. (BLC annual report, 2006)

German

1. AIG International Real Estate
AIG became listed on Frankfurt Stock Exchange in July 2002. The company has a global portfolio with investment properties in Europe, Asia and North America. AIG owns residential, office, industrial and retail properties. The investment properties had a value of €102.2 billion and the result after taxes was €9.4 billion for 2006. (AIG annual report, 2006)

2. Deutsche Annington
Deutsche Annington is one of the leading property companies in Germany. The investment properties are located throughout Germany, but the focus areas are the North Rhine-Westphalia and on the Rhine-Main region. The investment properties had a value of €6.9 billion and the result after taxes was €207 million for the year 2006. (Deutsche Annington annual report, 2006)

3. Deutsche wohnen
This company is a property company with a focus on residential property in the southwest of Germany. One of the reasons for this is the stable value of the investment properties in this region. Profit after taxes in 2006 was €29 million and the investment properties had a value of €957 million the same period. (Deutsche Wohnen annual report, 2006)
4. Deutsche Euroshop

Deutsche Euroshop is a listed German property company that focuses on shopping centers. The property portfolio in 2006 consisted of 16 shopping centers. These are mainly located in Germany but some are located in Austria, Poland and Hungary. The investment properties were valued to €1.45 billion and the result for Deutsche Euroshop in 2006 was €100 million. (Deutsche Euroshop annual report, 2006)

5. IVG Immobilien

IVG Immobilien belongs to the larger listed property companies within the EU. The portfolio consists mainly of office properties in Germany and in selected European cities. Profit after taxes in 2006 was €149 million and the investment properties were valued to €2.2 billion the same period. (IVG Immobilien annual report, 2006)
## Appendix 2. Glossary

<table>
<thead>
<tr>
<th>English Term</th>
<th>Swedish Term</th>
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<tr>
<td>Accruals concept</td>
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<td>Annual report, financial</td>
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<td>Audit of the group</td>
<td>koncernrevision</td>
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