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Accounting & Tax Committee
Japan Foreign Trade Council, Inc.

To the Financial Accounting Standards Board

Comments on "Real Estate-Investment Property Entities"

The following are the comments of the Accounting & Tax Committee of the Japan Foreign Trade Council, Inc. (JFTC) made in response to the solicitation of comments regarding the exposure draft of the Financial Accounting Standards Board of the United States entitled, "Real Estate-Investment Property Entities". The JFTC is a trade-industry association with trading companies and trading organizations as its core members, while the principal function of its Accounting & Tax Committee is to respond to changes in accounting standards. It should be noted that members of the JFTC include companies currently using U.S. GAAP. (Member companies of the JFTC's Accounting & Tax Committee are listed at the end of this document.)

I. General Comments

The proposals of this Exposure Draft are in harmony with fair value measurement as presented in the exposure draft on "Investment Companies" (Topic 946), and we find that due consideration has been given to comparability (elimination of the choice between fair value and cost) and the administrative burden on preparers (fair value measurement of investment properties is not required of all entities). On the other hand, it cannot be said that this Exposure Draft contributes to convergence with IFRS because it is totally different from IFRS in terms of its scope of application and methods. From the perspective of promoting convergence, we request that harmony be maintained with the IASB and continued efforts be made to maintain consistency in the application of the standards.

II. Specific Issues (Comments on Questions)

Question 1

As in the case of IAS 40, entities that do not meet the criteria of an investment property entity should be uniformly permitted to choose between the cost model and the fair value model.

- Entities holding investment properties are not limited to "investment property entities" that meet the criteria of this Exposure Draft. Therefore, in the case of an entity not deemed to be an investment property entity, measurement of investment properties at cost does not necessarily reflect the business performance and financial position of the entity in an appropriate manner. Furthermore, it can be assumed that an entity for which investing in real estate properties does not constitute substantially all of its business activities may choose to manage its property investment business based on fair value. Hence, we believe that, as in the case of IAS 40, such entities should be given the option of fair value measurement of investment properties.

Question 2

As in the case of IAS 40, the fair value measurement of investment properties held by investment property entities should be an option and not a requirement. One possibility would be to require investment property entities to measure their investment properties at fair value after first establishing consistency with the IASB. However, even in this case, we request that the criteria mentioned under Question 3 be revised first.

- It is conceivable that an entity for which investing in real estate properties constitutes substantially all of its business activities and which meets the criteria of this Exposure Draft may choose to manage its property investment business based on cost. For instance, in paragraph BC18, an entity substantially all of whose business activities consist of holding real estate properties to collect rental income long term is not deemed an investment property entity. However, some of such entities might not restrict their activities to property leasing and may simultaneously be involved in trading of property; and in their business management, trading properties may be measured at fair value while leasing properties may be measured at cost. Even for entities that meet the criteria of this Exposure Draft, from the perspective of consistency with the nature of business management, fair value measurement should be an option and not a requirement imposed on all investment properties. We believe that fair value measurement of real estate properties will not necessarily reflect in an appropriate manner the business performance and financial position of an entity for which investing in real estate properties constitutes substantially all of its business activities.

- Given that investment properties are larger in scale than non-marketable securities, greater caution should be exercised in measuring them at fair value. Moreover, fair value measurement is problematic for a number of reasons. First, measurements are difficult to make internally and will require the hiring of outside experts. Second, depending on the method used, considerable disparity in fair value may result. Under these conditions, recognizing changes in fair value in net income for each period will place excessive burdens on the preparers of financial statements. Furthermore, we do not think that the resulting information will prove particularly beneficial to users.

Question 3

The proposed amendments would not appropriately identify the entities.

- We believe that investment properties subject to fair value through profit or loss (FVTPL) accounting should be limited to those investment properties whose objective is the earning of profits from changes in fair value. We are concerned that the proposed amendments may extend the requirement of FVTPL accounting to even include investment properties whose objective is the earning of rental income over the medium term, so long as an exit strategy exists. We believe the criteria for investment property entities should be restricted to avoid this outcome. With regard to investments in real estate properties made for the objective of earning profits from changes in fair value, the requirement of FVTPL accounting should be limited to entities that invest in real estate properties with a commitment to exit, for example, within one year.

Question 4

The proposed requirement is appropriate and operational.

Question 5

This is appropriate.

Question 6

This should be limited to investment in real estate properties.

Question 7

This should not be considered.

Real estate properties held through noncontrolling financial interests are basically "not controlled," implying that the entity does not have the right to make decisions on such matters as disposal. Hence, such an entity does not meet the criterion of an investment property entity whose objective is "to realize capital appreciation, for example, through disposal of its real estate property or properties." Therefore, real estate properties held through noncontrolling financial interests need not be considered.

Question 8

Such entities should be excluded.

Question 9

Such entities should be excluded.

Question 10

This criterion is not appropriate.

Under this requirement, a wholly owned investment vehicle would not meet the criteria of an investment property entity. Being a wholly owned investment vehicle makes no difference in the objective of investing, which is the realization of capital appreciation. The essential objective of accounting standards is to provide an accurate picture of the reporting entity. Therefore, we believe it is not necessary to stipulate the participation of another investors that are unrelated to the parent.

Question 12

This should not be subject to FVTPL accounting.

Investment properties are held for the objective of realizing capital appreciation from changes in fair value. As such, FVTPL accounting is appropriate. However, we consider that the application of FVTPL accounting to other types of real estate properties (for instance, a real estate property held for use by the entity itself) is not necessarily appropriate.

Question 13

We agree with treating right-of-use assets as investment property. Regarding fair value measurement, our view is the same as that expressed under Question 2; that is, fair value measurement should be an option and not a requirement.

Question 14

Controlling financial interests should be consolidated.

Question 15

The exception is appropriate.

Question 16

FVTPL accounting should not be required.

The intent of the proposed amendments is to require FVTPL accounting for investments whose objective is the realization of capital appreciation from changes in fair value. General investments in equities and bonds are categorized by objective of holding at the time of acquisition, so that "investments whose objective is the realization of capital appreciation from changes in fair value" are categorized as trading securities and are subject to FVTPL accounting in accordance with US GAAP. Therefore, we believe that it is not necessary to expand the scope of the proposed amendments to include held-to-maturity debt securities and other types of general investment in equities and bonds.

Question 17

We support the FASB proposal requiring amortized cost measurement of financial liabilities unless the fair value option is elected. Given that an investment property entity is characterized by the assets that it holds, we believe it is not necessary to require any special accounting on the liability side also.

Question 18

We oppose the FASB proposal. We strongly request that due consideration be given to convergence with IFRS whenever the FASB is formulating a new proposal. Therefore, we believe that rental income should be recognized on a straight-line basis.

Question 20

The proposed disclosures are appropriate.

Question 21

This should be recognized as proposed.

Question 22

Hearings should be held with individual entities on the scope of investment property entities. After examining and specifying the scope of such entities, it will be necessary to consider whether the information needed for disclosure and presentation in financial statements can be collected. For this reason, we think that a period of about 12 months would be needed.

Question 23

Early adoption should be permitted. We believe that entities endeavoring to achieve more appropriate disclosure should be permitted a certain degree of discretion in the choice of their accounting policies.

Question 24

The proposed amendments should apply to nonpublic entities.

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