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February 13, 2012

Ms. Susan M. Cospers
Technical Director
File Reference No. 2011-210
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

**Re: Proposed Accounting Standards Update, *Real Estate - Investment Property Entities*
(Topic 973)**

Dear Ms. Cospers:

On behalf of The Carlyle Group (referred to herein as “Carlyle” or “we”), we appreciate the opportunity to comment on the Financial Accounting Standards Board’s Proposed Accounting Standards Update, *Real Estate - Investment Property Entities* (Topic 973) (“the Proposed ASU”).

Carlyle currently sponsors and manages eleven real estate opportunity funds representing approximately \$12 billion of assets under management. These funds invest in domestic and international real estate investments and currently have investments in over 500 real estate properties. Our funds’ historical financial reporting has been in accordance with the investment company accounting and reporting guidance. Based on the definition of an investment property entity (“IPE”) in the Proposed ASU, we believe that our real estate opportunity funds and their underlying investees would be classified as IPEs.

We support the Board’s efforts to reduce the diversity in practice related to the accounting by real estate entities and to promote financial reporting that provides information that is useful and relevant to financial statement users. However, we have concerns that certain principles outlined in the Proposed ASU are inconsistent with how real estate opportunity funds are managed and how investors in these funds utilize the funds’ financial statements.

We believe there are certain aspects of the Proposed ASU that will reduce the clarity and transparency of information in the financial statements, create significant operational challenges to implement, and increase costs. We have summarized below for the Board’s consideration our comments on these aspects of the Proposed ASU related to the presentation and disclosure of rental revenue and rental operating expenses and the consolidation of an entity if the interest held is a controlling financial interest.

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Presentation and Disclosure of Rental Revenue and Rental Operating Expenses

Pursuant to section 973-225-45-1 of the Proposed ASU, an IPE should present rental revenue from investment properties and rental operating expenses from investment properties on its income statement. Section 973-360-50-1 of the Proposed ASU would also require IPEs to disclose the amounts of direct operating expenses recognized in the financial statements (for properties that generated rental revenue and separately for properties that did not generate rental revenue), the restrictions on the ability to increase rent and collect revenue, and contractual obligations related to an investment property.

We believe that this requirement in the Proposed ASU is contrary to the investment model of real estate opportunity funds. Since the funds are by design limited-term entities (e.g., 10 years) and the real estate investments must be sold during the term of the fund, our investors are primarily concerned with the fair value of the fund's equity in the real estate investments. We believe that the existing financial statement presentation for investment companies accomplishes this objective.

Based on the investment model, where the emphasis is on the value to be achieved upon sale of the property, reporting rental income and operations during the intervening period of ownership (and doing so on an aggregated basis) is not meaningful to our investors. The fair value of a real estate property is influenced by many factors, and rental operations is only one of those factors. For example, a property that is being developed, renovated, or repositioned in the market may experience negative rental operations during a period of time, but that is not necessarily indicative of a decline in the property's fair value. Additionally, certain types of real estate investments generate significant non-rental income (i.e., hotels, data centers, assisted living facilities, for-sale residential development) that would be excluded from the presentation requirements of the Proposed ASU. These types of investments constitute a significant portion of the investments made by our funds. Also, rental operations do not necessarily translate to cash distributions to a fund's investors, as such cash flow may be re-invested into the property to increase its value.

Since the information required by the Proposed ASU would be aggregated across all real estate investments, rather than on a property-by-property basis, we believe such information provides no incremental value to our investors. We believe operating information is valuable to our investors when presented on a property-by-property basis. Accordingly, on a quarterly basis, we currently provide all of the fund's investors with a summary of all the investments held by the fund, with specific operating financial information for each investment. This information is provided in addition to the fund's quarterly financial statements.

Because this information is property-specific, we identify and provide financial information that is relevant based on the type of investment (i.e., office buildings, hotels, data centers, land development). This financial information is relevant for each individual property, but is not

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comparable from property to property because of the different types of real estate properties. Based on our experience with our investors, the information we currently provide is useful to them and fulfills their need to understand the operations of the properties. Across our real estate investor base of over 700 investors, we rarely receive an inquiry from an investor for additional information on rental income or operating expenses of the funds' real estate investments.

We also believe that the inclusion of this information in our funds' financial statements reduces the clarity and transparency of the financial statements to our funds' investors. We have received increasing feedback from a broad base of our investors, as well as their industry representatives, such as the Institutional Limited Partners Association ("ILPA"), that they want additional clarity and comparability from the fund financial statements, so that the statements can be easily reconciled to their individual investor capital account statements.

The requirements by the Proposed ASU to include rental operations in the financial statements, as well as the consolidation requirements of the Proposed ASU (discussed further below), would result in fund financial statements that are less clear to investors and will make it incrementally more difficult for them to reconcile the financial statements to their individual capital account statements.

Applying the required information in the Proposed ASU across a portfolio of 500+ real estate investments also presents operational challenges and will result in significant additional costs to our investors. For many of our funds' real estate investments, external real estate property managers are responsible for the day-to-day operations and property accounting; these property managers would be the source of the information required by the Proposed ASU.

As our funds' financial statements are subject to an annual audit requirement, the rental revenue and operating expenses of the Proposed ASU will be included in the scope of the audit, resulting in significant increases to the audit costs (which are borne by the funds' investors). Also, we are required to distribute our funds' financial statements to our investors on pre-defined dates. In order to meet our reporting requirements and accumulate the required information in the Proposed ASU across all real estate investments, we will incur significant additional personnel costs and resource requirements. We do not believe it is feasible for us to compile, validate, and consolidate this information across all real estate investments and be able to meet our funds' financial reporting deadlines.

We agree with the Board when it stated in the Proposed ASU that "the objective of financial reporting is to provide information that is useful to present and future investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefit of providing information for that purpose should justify the related costs" (BC75). We believe that the additional rental information on the income statement and the related disclosures do not provide incrementally useful

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information to our investors in light of the significant costs associated with providing such information to them.

Consolidation of Entities when an IPE has a Controlling Financial Interest

Pursuant to section 973-810-45-1 of the Proposed ASU, an IPE should consolidate an investment in another IPE, an investment company, or an operating entity that provides services to the IPE, if that investment is a controlling financial interest.

Currently, our real estate opportunity funds' financial reporting is based on the fair value of the funds' investments in the real estate property. Our funds do not consolidate the underlying real estate property holding company (where a venture partner in the property may have a financial interest, or where property-level debt is outstanding). We believe that this accounting and presentation is appropriate and provides the most meaningful presentation to the investor, as it presents the fair value of the funds' equity interest in the property, excluding the value of non-controlling interests or property-level debt that is non-recourse to the fund. We acknowledge that there is diversity in practice in the asset management industry regarding the principles of consolidation by an investment company. We believe that the Board's proposed Accounting Standards Update on investment companies is the appropriate vehicle to reconcile the diversity in practice and we support the Board's efforts in providing additional guidance in this area.

Based on the application of the consolidation guidance in the Proposed ASU, our funds would consolidate IPEs that are structured as venture arrangements (with a real estate developer who will be responsible for operating and improving the property, and who has a financial interest in the property), if the fund has a controlling financial interest in the IPE. Our funds would also consolidate wholly-owned real estate holding companies that contain debt financing tied to the property.

This consolidation will result in the funds' financial statements reporting non-controlling interests (related to the joint venture partner's financial interest) and debt obligation liabilities (related to property-level debt that is non-recourse to the fund). We believe that the inclusion of this information in our funds' financial statements results in financial statements that are not meaningful to our funds' investors. The inclusion of non-controlling interests obscures to the reader the fair value of the funds' equity interest in the properties, which is the information most important to the investors, and the inclusion of non-recourse debt obscures the debt obligations of the fund versus the non-recourse debt of the properties.

In its basis for conclusion, the Board indicated that "the Board believes that consolidation of controlling financial interests in an investment company would increase the transparency by providing information about the subsidiary's investments and debt obligations to which the parent investment property entity is exposed and also would result in consistent reporting by investment property entities and investment companies" (BC45). For the reasons cited above,

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we believe that the consolidation requirement in the Proposed ASU would reduce the transparency of a fund's financial statements as it would include debt obligations that are non-recourse to the fund and non-controlling interests that obscure the value of the fund's interest in a property. Such information is already taken into consideration when determining the fair value of a fund's investment in the real estate property. For that reason, we believe that reporting the fair value of a fund's net investment in its real estate properties provides more transparent and meaningful information to the financial statement users than a consolidation-based model.

We support the Board's efforts to improve financial reporting and provide information that is useful and relevant to financial statement users. We respectfully suggest that the current practice of accounting for real estate opportunity funds within the construct of the investment company accounting and reporting guidelines has historically succeeded in providing relevant and clear financial information to the financial statement users. We believe that any changes that the Board believes are necessary to further enhance and clarify financial reporting for real estate investments can best be accomplished through its proposed Accounting Standards Update to investment company accounting, thereby creating a single set of standards for all investment companies to follow.

We would also encourage the Board to solicit input from the alternative investment investor community and their industry representatives, including the ILPA, on the current reporting model under the investment company guidelines compared to the new reporting model under the Proposed ASU. We believe that the Board would receive feedback from those constituents that would highlight similar concerns with the Proposed ASU that we have articulated in our response.

We appreciate the opportunity to offer our feedback on the Proposed ASU. We would be pleased to discuss our views with you at your earliest convenience.

Sincerely yours,



Curtis L. Buser
Managing Director & Chief Accounting Officer