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February 15, 2012

Financial Accounting Standards Board  
Technical Director - File Reference No. 2011-210  
Financial Accounting Standards Board  
401 Merritt 7 - PO Box 5116  
Norwalk, CT 06856-5116

**Re: Proposed Accounting Standards Update, Topic 973: *Real Estate – Investment Property Entities*; issued October 21, 2011**

Dear Board Members and Staff:

As practitioners of fair value accounting in the real estate industry for over 30 years, we would like to thank the Financial Accounting Standards Board (the "Board") for addressing the long-standing needs of our industry: a fair value based standard for real estate investment. Our portfolio managers, investors and their consultants have found fair value accounting practices greatly enhances their understanding of their investment portfolios, and we are very much interested in perpetuating this industry preferred treatment. The industry has already gone to great lengths to ensure that practices are as consistent as possible between preparers of financial statements and have, therefore, been able to provide a stable basis on which the performance of individual investments, portfolios, and investment managers can be evaluated. We are pleased to provide our comments on the recently proposed exposure draft; Topic 973: Real Estate – Investment Property Entities (the "ED").

***LaSalle Investment Management***

LaSalle Investment Management ("LaSalle") is one of the world's leading real estate investment managers. We manage \$47.7 billion of public and private equity real estate investments and have a diverse investor base that includes public and private pension funds, insurance companies, governments, endowments and private individuals from across the globe.

Unlike many investment management firms, we invest only in real estate and therefore, have a unique focus and depth of expertise in that sector. Our primary objective is to deliver superior performance while striving to achieve the highest levels of client service.

LaSalle is a wholly owned but operationally independent subsidiary of Jones Lang LaSalle Incorporated, one of the world's leading real estate service providers. Jones Lang LaSalle is a publicly held company listed on the New York Stock Exchange (ticker: JLL). Our affiliation with Jones Lang LaSalle allows us to obtain extensive real-time information and research which helps to inform our analysis of markets and identify opportunities.

On behalf of our clients, LaSalle invests globally and primarily in office, industrial, retail, and multi-family properties. We do, however, also invest in intermodal, hotel, senior living, medical office, and storage facilities

in lesser quantities. Our structures include separate account vehicles (e.g. wholly-owned investments for pension funds), open-ended REITs that trade shares and close-end private REITs that do not typically trade shares. Our funds also cover varying strategies including core (low risk), value-add (moderate risk), and opportunistic (high risk). Our investor base is comprised of domestic, international, corporate, private, institutional, and high-net-worth individual.

***General Statements and Guiding Principles concerning LaSalle's Position***

By creating the Investment Property Entity (IPE) approach to accounting for real estate funds, the Board has made significant progress in understanding our industry. However, there are some proposed features of the ED that, if applied, would negate or work against previously proven practices that the investor community currently finds useful in evaluating their investments. Our letter will address each of these in turn as we answer the questions in the ED below.

As a general position, we fully support a global, converged standard. Anything short of this objective is a disservice to the investor community abroad. Our investors and their consultants require that investments be reported similarly across the globe and have repeatedly requested that their investor reports be consistent and comparable across regions. Divergent global standards will preclude this objective from being easily achieved as there would be a lack of connection between audited results and investor reporting. This would cause a proliferation in the use of non-GAAP measures to compensate for the deficiency (e.g. INREV Net Asset Value).

Our reliance upon component returns (i.e. income and appreciation) also weighs heavily in our response to the ED. Calculating and reporting these returns is necessary for adherence to our investor agreements, evaluating our own performance on investments, responding to requests from new investors, and comparing ourselves to the market place with respect to the National Property Index (NPI) and Open-end Diversified Core Equity Index (ODCE) as produced by the National Council of Real Estate Investment Fiduciaries (NCREIF). Not having audited results that support the standard performance measurements established by NCREIF and the CFA Institute would leave our industry's managers, investors and consultants significantly lacking in the ability to evaluate investments.

It is also important to note that LaSalle would prefer a more principles-based standard rather than the typical prescriptive and highly-rules-based approach that we have seen in the past. Our answers to the questions will indicate where and why we believe a principles-based approach is more appropriate.

Finally, the Board has chosen the wrong level at which to approach the application of the criteria. Applying the criteria to the individual investments held by an entity is more appropriate than measuring the qualification of the investing entity itself. Put more directly, the approach offered by IFRS in IAS 40 – Investment Property is more appropriate.

Sincerely,



James Strezewski  
Senior Vice President  
LaSalle Investment Management

## ANSWERS TO QUESTIONS FOR RESPONDENTS

### Scope

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**Question 1:** *The proposed amendments would require an entity that meets the criteria to be an investment property entity to measure its investment property or properties at fair value rather than require all entities to measure their investment properties at fair value. Should all entities measure their investment properties at fair value or should only an investment property entity measure its investment properties at fair value? Why? Is fair value measurement of investment properties operational? Please describe any operational concerns.*

**Answer 1:** If held for *investment* purposes (as described in the criteria), fair value is the only appropriate measure for investors. By requiring a fair value treatment of all investment property, investors are able to combine, compare and disseminate results across all products. At LaSalle, we have several investors who invest in multiple products for different strategies and they invest globally. The investors continually request that LaSalle provide consistent, fair value data across all products and regions to the extent possible so that reporting is consistent and comparable. Even when investing within a single region, investors require this same consistency and comparability.

We understand that certain entities that typically hold assets other than for investment purposes may also hold an investment property either temporarily or immaterially, but the reality is that they still hold it as an investment per the qualifying criteria and fair value is the best measure for reporting on such assets. Perhaps the practical expedient is a more appropriate measure for these situations – see our comments below. If the objective is not to hold the asset for the long term, it is still important to present it at fair value since that will be the likely financial impact at disposition and therefore, what is realized by the investor.

Fair-value measurement of investments is operational; we currently perform this function at LaSalle. The private equity real estate industry currently measures its investments at fair value and has been for over 30 years. Although operational, the fair valuing of investments does not come without a cost. The costs can be extensive depending on investor specific requirements and certain investment characteristics. In general, our investor community mandates that the valuation process be independent regardless of the additional cost. The assurance that an independent process provides to the reliability of reported investment performance cannot be replaced with simple disclosures or supplemental reporting.

**Question 2:** *The proposed amendments would require an investment property entity to measure its investment property or properties at fair value rather than provide an option to measure its investment property or properties at fair value or cost. Should fair value measurement of investment properties be required or permitted? Please explain.*

**Answer 2:** We support a *requirement* to measure investment properties at fair value. As stated above, if an investment property is held for investment purposes, fair value is the best measure to present to the users of financial statements. Our industry has followed this approach for over 30 years and has developed

performance measurement standards around the fair value accounting model. It is important to note that although the requirement is appropriate for investment property, we do not share this position with investments in financial assets. Please see our answer to question 16 for further details on our position.

We do however have issues with these investments having to be part of an investing entity in order to qualify for fair value treatment. We would rather the Board adopt an approach to investment property similar to that of the IASB in that each investment be evaluated regardless of the investing entity's qualification. LaSalle has several funds that apply IFRS and we have found that even where an option is provided for under IAS 40: *Investment Property*, the option to value is chosen as it is known to be the most appropriate presentation to investors.

**Question 3:** *Do the criteria in the proposed amendments appropriately identify those entities that should be required to measure their investment property or properties at fair value, and, therefore, should be excluded from the scope of the lessor accounting model in the proposed update on leases? If not, what changes or additional criteria would you suggest, and why are those criteria more appropriate?*

**Answer 3:** As noted above, we disagree with applying the fair value requirements to an entity and believe it should be applied to the individual investment. If the guidance were to remain focused on the entity rather than the investment, we agree that the criteria identify most entities that should be scoped into the IPE treatment with the following exceptions:

1. The wording "substantially all" in criteria 1 is too restrictive. Based on conversations with industry constituents, the perceived measure of this wording would translate into approximately 90%. This is too restrictive for some very important reasons. In the life span of many funds, an investment manager will operate in varying economic conditions and downturns during which time it must "churn" its assets to achieve its investor's return expectations. In these cases, the investment manager may need to rebalance the portfolio by temporarily investing more in securities, or even in non-controlling interests in real estate (treated as financial instruments) to achieve the returns expectations as set forth in the fund's organizational documents. Investment managers should not be forced to make investment decisions that are geared towards maintaining a 90% or greater IPE hurdle in order to achieve those return expectations. By making the change in the second bullet below, the "substantially all" wording could work.
2. The wording of **property** versus **investment** with respect to real estate is too restrictive. An investment manager should have the ability to choose its real estate related investments that meet its return objectives as long as they remain related to real estate; the fund should still qualify as an IPE when investing in real estate related investments.
3. We understand that the exception to *Unit Ownership* and *Pooling of Interests* criteria as proposed in paragraph 973-10-15-3 of the ED is just that; proposed. It also stands outside the actual criteria and in its own paragraph perhaps indicating it is of less importance than the other criteria. Without this exception, our separate account funds would be scoped out of fair value accounting treatment. As is mentioned in other industry letters, this exception is a must-have to ensure consistency and comparability across products.

**Question 4:** *The proposed amendments would require an entity to reassess whether it is an investment property entity if there is a change in the purpose and design of the entity. Is this proposed requirement appropriate and operational? If not, why?*

**Answer 4:** While the proposed language is appropriate, if one assumes that a potential *change in purpose or design* is significant enough, the entity to no longer meet the requirements of criterion 1 as well.

Additional application guidance would help clarify to what extent a “change” has been made. A “change” can be more directly defined (e.g. written in offering documents or approved in minutes of corporate meetings) and if it is not, then it will be the source of differences in opinion between preparers and auditors.

For example, a previously passive investor in a hotel decides to not only own a hotel, but brand their business and operate hotels. By shareholder vote, the entity pursues a hotel operating strategy. This clearly indicates a change in purpose and design or the investment manager would be in violation of its investment objectives.

Where an entity that currently holds an asset as a passive investment is suddenly thrust into a more active role (e.g. developer partner bankruptcy), it should not be considered to have changed their business purpose and design. Their investment objectives remain the same, but only by *force majeure*, was their purpose changed.

If the Board professed a more principles-based approach, further definition would not be required as this could be more appropriately defined within the facts and circumstances of the “change” being contemplated. As the Update is worded now (lacks promotion of a principles-based concepts), we cannot draw this conclusion. This approach would also avoid the potential for a fund finding itself challenged with a constant moving in and out of IPE treatment.

**Question 5:** *An entity that would be an investment property entity under the proposed amendments would be required to follow the accounting requirements in the proposed amendments even if that entity also would be an investment company under Topic 946. Is it appropriate for an entity that would meet the criteria to be both an investment property entity and an investment company under Topic 946 to be subject to the amendments in this proposed Update? If not, what alternative approach would you recommend if an entity would meet the criteria to be both an investment property entity and an investment company? Should the form of the entity (real estate fund versus real estate investment trust) dictate whether an entity should be an investment company or an investment property entity for accounting purposes? If yes, please describe the difference between the business activities of a real estate fund and a real estate investment trust to support your view.*

**Answer 5:** An investment vehicle should first evaluate whether or not it is an investment company; a much broader category of investment vehicles. This is a more appropriate approach since IPEs are more readily described (based on the proposed criteria) as a specific subset or type of IC. We draw this conclusion because the criteria to be an IPE are nearly similar to those of an IC, but more specific and restrictive (e.g. only real estate, investing for income *and* appreciation). The unintended consequence (not always foreseeable) of scoping in funds that should not be an IPE should be avoided and reversing the order of qualification from what is proposed would eliminate those problems.

Finally, the form of an investing entity should never be an issue in determining its status as an IPE or IC. Forms of investing entity, especially the REIT and limited partnership structures, are typically used to help achieve other results such as tax or legal related issues. We are unable identify any instances where the form of an entity does anything other than attempt to maximize the return to its investors.

## **Nature of the Business Activities**

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**Question 6:** *To be an investment property entity, the proposed amendments would require substantially all of an entity's business activities to be investing in a real estate property or properties. Should an entity's business activities be limited to investing in a real estate property or properties rather than investing in real estate assets in general (such as real-estate-related debt securities and mortgage receivables) to be an investment property entity? If not, why? Is this requirement operational? Please describe any operational concerns.*

**Answer 6:** Criterion 1 should change on two points:

First, whether the guidance focuses on the individual investment (as we strongly recommend) or on the entity, the scope should be expanded to include real estate related *investments* in general. This is critical to our industry. By limiting the qualification to real estate property, the criterion is limiting the investing entity's ability to take advantage of real estate investments that offer lucrative returns to the investors, but are only different due to the nature or structure (e.g. partnership classified as a financial instrument in ASC 825) of the investment. Regardless of the structure, the business purpose remains the same and the investors achieve the same results. Exempting a fair value treatment in this instance penalizes the entire entity for meeting investors' needs via the flexibility that diversity in investment type offers. There are many existing funds that diversify their risk in real estate investments by spreading their exposure across other real estate assets.

Second, if the focus remains on the entity, the requirement that "substantially all" (which we understand to be somewhere in the 90% range) of the investments in the entity are in property continues to foster inflexibility in managing the risk associated with limited investment structures and unforeseen economic conditions that may create obstacles to investing directly in real estate properties. Investment Managers who previously qualified as IPE would be forced to manage their structures not for maximizing returns, but to maintain the fair value accounting treatment desired by investors, by monitoring the substantially all requirement. This runs contrary to the objectives of the investor. If the issue mentioned above were resolved, the other real estate related investment would be included and this would less of an issue, but as proposed, it is too high a hurdle to consistently meet.

**Question 7:** *The implementation guidance in this proposed Update specifies that when evaluating whether substantially all of the parent entity's business activities are investing in a real estate property or properties, the parent entity would not consider real estate properties held indirectly through investments in which the parent entity does not have a controlling financial interest. Should the evaluation of an entity's business activities consider properties held through noncontrolling financial interests (for example, investments in which the entity can exercise significant influence)? Why or why not?*

**Answer 7:** As stated above, the restriction based on investment structure and control is unreasonable and overly restrictive. These are still investments in real estate that achieve the return objectives of the fund. We

can identify no logical reason to scope a real estate investment fund out of IPE treatment simply because it has fewer controlling interests in its real estate investments. Please also refer to our answer to question 6.

## **Express Business Purpose**

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**Question 8:** *To be an investment property entity, the proposed amendments would require that the express business purpose of an entity is to invest in a real estate property or properties for total return with an objective to realize capital appreciation, for example, through disposal of its real estate property or properties. Real estate properties held by an entity for either of the following purposes would not meet this criterion:*

- a. The entity's own use in the production or supply of goods or services or for administrative purposes*
- b. Development for sale in the ordinary course of business upon completion (such as land developers and home builders).*

*Should an entity whose express business purpose is to hold real estate properties for the reasons listed above be excluded from the amendments in this proposed Update? If not, why? Is the express-business-purpose criterion operational? Please describe any operational concerns.*

**Answer 8:** We agree that the exclusions mentioned above are appropriate and operational.

We note that there are instances in which a real estate investment fund invests in a development property in joint venture with a development company. The objectives of the investment fund in this instance are similar to those with respect to any other real estate investment, i.e. for total return with an objective to realize capital appreciation. We recommend the proposed guidance clarify that such investments are consistent with an express business purpose to invest in a real estate property or properties.

As mentioned above, we also recommend that the Board approach the assessment of investment property from the investment level and not at the investing entity level. If assessed at the investment level, there would be no need to address overall entity qualification issues. Please also see our answer to question 2 above.

**Question 9:** *To meet the express-business-purpose criterion, the implementation guidance in this proposed Update would require that an investment property entity have an exit strategy to dispose of its real estate property or properties to realize capital appreciation to maximize total return. An entity that invests in a real estate property or properties to collect rental income long term and does not have an exit strategy for its real estate property or properties would not be an investment property entity under the proposed amendments. Should those entities be excluded from the amendments in this proposed Update? If not, why? Is the exit strategy requirement operational? Please describe any operational concerns.*

**Answer 9:** We agree with the requirement for an exit strategy as long as that strategy is not as narrowly defined as a dated or written plan of disposition. We manage several funds that hold investments predominantly for the current income they generate. We also understand that even these income generating

assets can and likely will be sold for a competitive price in the market given the appropriate conditions and current investor sentiment. In these cases, an exit strategy is always and continually contemplated implicitly, but not necessarily dated or specifically planned and not necessarily defined in the fund's organizational documents. We therefore recommend that this requirement remain more principles based and allow for the instance described above to occur and qualify. Without this treatment, several funds could be scoped out of fair value accounting treatment for which they had previously qualified. Perhaps this concept could be further clarified in the ED.

## Unit Ownership and Pooling of Funds

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**Question 10:** *To be an investment property entity, the proposed amendments would require an entity to have investors that are not related to the entity's parent (if there is a parent) and those investors, in aggregate, must hold a significant ownership interest in the entity. Is this criterion appropriate? If not, why?*

**Answer 10:** We believe this criterion is appropriate as long as the single-investor exceptions as described in paragraph 973-10-15-3 remain in the standard.

**Question 11:** *To be an investment property entity, the proposed amendments would provide an exemption from the unit-ownership and pooling-of-funds criteria for a subsidiary entity that (a) has a parent entity that is required to account for its investments at fair value with all changes in fair value recognized in net income in accordance with U.S. GAAP or (b) has a parent entity that is a not-for-profit entity under Topic 958 that measures its investments at fair value. Should this exemption be available only to a subsidiary entity with a parent entity that is (a) required to account for its investments at fair value in accordance with U.S. GAAP or (b) a not-for-profit entity under Topic 958 that measures its investments at fair value? If not, which entities should be permitted to apply the exemption and why?*

**Answer 11:** The exception is appropriately worded.

## Measurement

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**Question 12:** *The proposed amendments would require real estate properties other than investment properties that are held by an investment property entity to be measured in accordance with other U.S. GAAP. Should an investment property entity be required to measure those properties at fair value with all changes in fair value recognized in net income instead of applying other U.S. GAAP? Why or why not?*

**Answer 12:** LaSalle does not hold any property in its funds other than investment property and, therefore, does not take a position on this question.

**Question 13:** *The proposed amendments would require a right-of-use asset in which the underlying asset meets the definition of an investment property to be measured at fair value with all changes in fair value recognized in net income. Should those right-of-use*

*assets be measured at fair value with all changes in fair value recognized in net income? If not, why and which measurement attribute would you recommend for those right-of-use assets?*

**Answer 13:** We believe no right-of-use assets as proposed under the new lease accounting exposure draft are appropriate under a fair value accounting model and therefore, they should be measured at fair value through net income. In the cases where an underlying investment records its right-of-use assets using the proposed lease accounting model (e.g. consolidated joint venture where the accounting model is not currently fair value for other partners not using fair value accounting), proper consideration should be given to all users of the financial statements so that the effects of recording a right-of-use asset may be removed.

We do not support the proposed lease accounting model because the model stands to provide information that we feel is not useful to the user of the financial statements (fair value or historical cost). The issues raised above with respect to IPEs only stand to further support that position.

## **Interests in Other Entities**

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**Question 14:** *The proposed amendments would require an investment property entity to evaluate whether an interest in (a) another investment property entity, (b) an investment company as defined in Topic 946, or (c) an operating entity that provides services to the investment property entity should be consolidated under Topic 810. Should an investment property entity consolidate controlling financial interests in those entities? If not, why? Should an investment property entity consolidate controlling financial interests in other entities? If yes, why?*

**Answer 14:** We agree that an IPE that holds a controlling financial interest in another IPE or IC should consolidate that entity. There is no reason to assume that consolidation could not be accomplished given the level of control in the investment. Our funds typically invest with some level of control over the investments which includes control over the reporting requirements of those investments. LaSalle does not have an issue here.

We can foresee instances where a requirement to consolidate a controlling financial interest in another IPE or IC may cause problems. Where that controlling interest is gained from no deliberate action (e.g. foreclosure or bankruptcy of controlling interest), or with existing funds that have been able to follow the current IC guide and found no need to control the reporting requirements to consolidate. However, it is still appropriate to consolidate these entities.

An IPE should only consolidate entities that are considered investment property. Where an operating entity is providing services to the IPE, these services are not relevant to the investing objectives of the entity and therefore, should not be consolidated.

**Question 15:** *The proposed amendments would prohibit an investment property entity from applying the equity method of accounting in Topic 323 unless the investee is an operating entity that provides services to the investment property entity. Is that exception to the equity method of accounting requirements in Topic 323 appropriate for investment property entities? If not, why?*

**Answer 15:** We agree with the Board in that application of Topic 323 – *Investments – Equity Method and Joint Ventures* is not appropriate as that topic was written for a historical cost based accounting model and therefore, does not contemplate fair value methods. It is appropriate to further clarify that the fair value through net income methodology is essentially the equity method with the addition of fair value concepts (i.e. unrealized gains and losses).

We have attached an example of how our industry has applied the equity method while also incorporating fair value concepts. You will notice that this approach also preserves the component returns discussed in our opening Summary of Our Position that are key performance measures established within our industry. It is essential that we preserve these measures and that can only be accomplished if the *Fair Value Through Net Income* method is appropriately defined.

In the case where the entity is an operating entity providing services to a parent IPE, we agree with the Board's decision to allow the equity method as we agree that those entities are not part of the investing activities of the fund and the investor should not be led to think that they are.

**Question 16:** *The proposed amendments would require an investment property entity to measure investments in which it does not have a controlling financial interest or cannot exercise significant influence in accordance with U.S. GAAP. For example, that would currently require held-to-maturity debt securities to be measured at amortized cost and would permit certain equity securities to be measured using the cost method, unless the fair value option in Topic 825, Financial Instruments, is elected. Should an investment property entity be required to measure those investments at fair value with all changes in fair value recognized in net income instead of applying other U.S. GAAP? Why or why not?*

**Answer 16:** Although we agree with the Board on the retention of the option to value these securities under Topic 825: Financial Instruments, recording these investments at value is appropriate in some circumstances. As is also described in our answer to question 17, making the option to value available is more appropriate than requiring valuation as the investment manager is in the best position to determine if valuing the financial instrument is appropriate in calculating the value of the investor's share.

For example, an investment in a mortgage or debt security that is readily tradable in the marketplace should be carried at fair value. Our experience in our industry has been that these instruments are in fact typically carried at value; in other words, the option is dutifully exercised where appropriate.

It is important to note that in some cases, even where value would be required, the value of a particular investment in a financial instrument may be par. This result is achievable if the facts and circumstances of a particular instrument dictate that par is the best measure of value. Simply put, the common sense approach to the economic reality would suggest no change in value where the proposed standard may indicate one should exist. We therefore conclude that the option to value these investments (and liabilities) should remain so as to avoid the confusion that an instrument is at par and value. This would eliminate the interpretation causes in preparation of the financial statements.

Please also refer to our answer to question 17 for further details.

## Financial Liabilities

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**Question 17:** *The proposed amendments would require an investment property entity to measure its financial liabilities (such as its own debt) in accordance with other U.S. GAAP, which currently requires amortized cost measurement unless the fair value option in Topic 825 is elected. Should an investment property entity be required to measure its financial liabilities at fair value with all changes in fair value (including changes in an entity's own credit) recognized in net income instead of applying other U.S. GAAP? Why or why not?*

**Answer 17:** We agree with the proposed amendments, but the Board should leave the current option to value liabilities (as allowed for in ASC 825) in place. This option allows the investment manager to choose what is appropriate for that fund (share trade capabilities, investment strategy) based on the needs and stated preferences of a particular group of investors. Requiring the valuation of debt causes unintended volatility in share price where our historic results have proven that volatility is never realizable. Requiring debt to be valued does not allow one to consider the entire universe of debt instruments and as a result, by requiring a fair value adjustment, the fund could record fluctuations in value that are unrealizable.

For example, a fund whose strategy is to invest in properties for approximately seven years while adding value to those investments so that capital appreciation can be realized at disposition, will many times use leverage to increase its buying power and gain access to a larger variety of investment possibilities. The debt instrument's maturity date is typically matched to the projected hold period of the investment so that it can be paid off with proceeds from the sale of the asset. By showing an increase in the value of the instrument over time, investors are led to believe that they can realize that value since their share of the underlying NAV of the fund has increased. Conversely they may believe they have lost value when the instrument decreases in value. Eventually and inevitably over time, the value fluctuations reverse as the maturity date approaches and the realized portion of that "value" change is \$0.

In these specific and not uncommon instances, LaSalle has heard from investors and they do not want to see this volatility that amortizes to \$0. Removing the option would remove the investment manager's ability to properly reflect the value of the investor's share especially when strategies differ on the use of leverage.

Please also refer to our answer to question 16 for further details.

## Rental Revenue Recognition

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**Question 18:** *The proposed amendments would require an investment property entity to recognize rental income on investment properties subject to a lease when lease payments are received or as the lease payments become receivable in accordance with the contractual terms of the related lease rather than on a straight-line or other basis. Is that basis of recognizing rental revenue appropriate for investment properties measured at fair value? If not, why?*

**Answer 18:** We have some difficulty with the language used in the question. We support a revenue recognition model that mirrors contractually "earned" revenue (i.e. accrual basis). Although the question states "when received" (cash basis) or "receivable" (accrual), we prefer a consistent, industry-wide measure of accrued, contractually-based revenue recognition. We do not support a cash-based (or dividend method) revenue recognition model for a consolidated financial statement presentation as proposed in the IPE ED.

In the interest of addressing convergence issues, we strongly oppose the IFRS practice of straight-lining rental revenue while also recording the same real estate investments at fair value that encompass those revenues. While this concept may be appropriate for a historical cost representation of earning potential, it is entirely contradictory to the fair value process and even stands to confuse the user of fair value based financial statement information. Investors, investment managers, and industry consultants (i.e. similar to public analyst community) all remove straight-line rent from financial results when evaluating the current changes in value and the performance of investments. We can see no useful purpose in calculating (time-consuming and therefore, costly) a number that is eliminated in standard fair value accounting practices from both operating income and unrealized/realized gains on sale. The perceived benefit from making revenue recognition models comparable by straight-lining across similar real estate investments, is a flawed perception based on our knowledge of investor sentiment.

### **Practical Expedient for Measurement of an Interest in an Investment Property Entity**

**Question 19:** *The proposed amendments would permit, as a practical expedient, an entity to estimate the fair value of its investment in an investment property entity using the net asset value per share (or its equivalent) of the investment if the entity would transact at the net asset value per share. Are there investments that currently qualify for the practical expedient that would no longer qualify for the practical expedient because of the proposed amendments? If so, please identify those types of investments.*

**Answer 19:** We agree that the practical expedient is appropriate under certain circumstances and therefore, should be permitted; especially where a stated share value is the transaction price. We do not foresee any circumstances where a previous use of this methodology would no longer be permitted.

### **Disclosure**

**Question 20:** *Are the proposed disclosures appropriate for an investment property entity? If not, which disclosures do you disagree with? Should any additional disclosures be required? If so, why?*

**Answer 20:** We generally agree with the proposed disclosures, but are concerned that disclosing **any** contractual obligations of the investment property will become too voluminous. Without further clarity, this could be taken to mean contractual obligations that include those covering investment properties' operations (e.g. elevator maintenance contract, cleaning contract, etc.). We suggest that this be clarified to only include what matters to the investors which are contractual obligations that the investment property or the IPE may have which impede its ability to generate cash. Normal course of business contractual obligations should be understood as to be in existence.

### **Effective Date and Transition**

**Question 21:** *Should an entity recognize the effect of adopting the requirements in this proposed Update as an adjustment to the beginning balance of retained earnings in the period of adoption? If not, what transition requirements would you recommend and why?*

**Answer 21:** We agree that an adjustment to retained earnings is appropriate. Any other treatment would likely skew the return calculations for the underlying investments or the fund as a whole. Those results would be highly undesirable for the industry as a whole.

**Question 22:** *How much time would be necessary to implement the proposed amendments?*

**Answer 22:** Very little time would be needed for our firm to implement the proposed standard if the approach were investment level based (i.e. IAS 40). If the approach continued to be an entity-level approach, more consideration for scoping would be required and perhaps fund and investor agreements would need to be amended to accommodate a potential change in reporting requirements.

**Question 23:** *The proposed amendments would prohibit early adoption. Should early adoption be permitted? If yes, why?*

**Answer 23:** We agree that early adoption should be prohibited since it would:

1. Create NAV divergent across multiple product types
2. Introduce the possibility of adopting a standard during a period where both the IASB and the FASB will be working out the convergence issues that could cause further change after the early adoption period.

## **Nonpublic Entities**

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**Question 24:** *The proposed amendments would apply to both public and nonpublic entities. Should the proposed amendments apply to nonpublic entities (such as private companies and not-for-profit organizations)? If not, how should the proposed requirements differ for nonpublic entities and why?*

**Answer 24:** The proposed amendments should apply to both public and non-public entities. Investors who invest in both public and non-public vehicles should be able to compare their investments as closely as possible. Requiring fair value measurements in both instances creates consistency and comparability for investments with similar returns-based objectives.