



Via email to director@fasb.org

February 14, 2012

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

Re: File Reference No. 2011-210: Proposed Accounting Standards Update, *Real Estate – Investment Property Entities (Topic 973)*

Dear Ms. Cospers:

This letter is submitted in response to the request for public comment by the Financial Accounting Standards Board with respect to its Exposure Draft of the proposed Accounting Standards Update, *Real Estate – Investment Property Entities (Topic 973)*. WeiserMazars LLP appreciates the opportunity to review and comment on this Exposure Draft.

Our responses to the questions in the Exposure Draft are included for your consideration.

If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Shahab Moreh (at 212.375.6791), Edward Ichart (at 516.620.8441), or Denise Moritz (at 646.225.5913).

Very truly yours,

A handwritten signature in cursive script that reads 'WeiserMazars LLP'.

WeiserMazars LLP

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**Comments on Proposed Accounting Standards Update – Real Estate – Investment
Property Entities (Topic 973)**

(File Reference No. 2011-210)

Responses to Specific Questions

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.

Response: We believe that only an entity that meets all the criteria to be an investment property entity should measure its investment properties at fair value, unless an entity is required by other U.S. GAAP to measure its investment properties at fair value. By requiring an entity which does not meet the criteria to be an investment property entity and is not already required to measure its investment properties at fair value to report at fair value would be costly and would create undue burden with minimal incremental value to investors.



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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.

Response: We believe that an investment property entity should be required to measure its investment property or properties at fair value to eliminate current diversity in practice and to enhance the comparability and consistency of the financial statements of similar entities.

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?

Response: Generally, the criteria in the proposed amendments appropriately identify those entities which should be required to measure their investment properties at fair value and therefore should be excluded from the scope of the lessor accounting model in the proposed Update on Leases. However, we believe when determining whether or not an entity is an investment property entity that the pooling of funds criterion should be clarified. In this respect the current proposed Update does not go into depth regarding the definitions of an unrelated party, how "significant ownership" should be interpreted, and what constitutes professional investment management.

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?

Response: The proposed requirement is appropriate and operational.

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.

Response: We agree that an investment property entity that meets the criteria of an investment property entity should be required to follow the accounting requirements of the proposed amendments even if that entity would also be considered an investment company under Topic 946. We do not believe for accounting purposes that the form of the entity should dictate whether or not the entity should be classified as an investment company or an investment property entity.

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.

***Response:** We disagree with the requirement which dictates that substantially all of an entity's business activities must be invested in one or more real estate properties. Because a real estate investment entity typically offers a wide range of real estate investment services to investors, we believe that investments in other real estate assets should be contemplated when determining the nature of the entity's business activities. However, we believe the entity's business activities should be limited to real estate related assets which it actively manages with the objective of realizing capital appreciation. The deciding factor should be whether or not the entity actively manages its investment. That is to say the investment property entity is involved in the day-to-day activities of the investment; merely collecting on mortgage receivables would not constitute active management.*

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 non-controlling financial interests (for example, investments in which the entity can exercise significant influence)? Why or why not?

***Response:** We believe that the evaluation of an entity's business activities should consider properties held through non-controlling financial interests. An entity may not be able to control or have significant influence upon the activities of an investee, but the entity does control what it invests in. Those investment decisions should be considered when contemplating the business activities of the reporting entity.*



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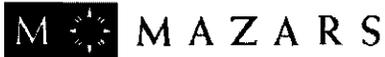
Question 8: To be an investment property entity, the proposed amendments would require that the express business purpose of an entity is to invest in a real estate property or properties for total return with an objective to realize capital appreciation, for example, through disposal of its real estate 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.

Response: We agree with the proposed amendments that an entity which holds real estate properties for either of the purposes indicated above should be excluded. The express-business-purpose criterion is operational when assessing the entity at formation. However, we believe additional guidance should be provided when an entity has a change in their express-business-purpose.

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.



***Response:** We agree that an exit strategy must be present to qualify as an investment property entity. There are numerous private entities which own real estate properties for extended periods of time with no written exit strategy in either an offering memorandum and/or other publications distributed to investors. These entities would not benefit from reporting their properties at fair value. Any entity without a clearly documented exit strategy should be excluded as an investment property entity. We believe that the requirement for an investment property entity to have an exit strategy is operational and is already being met by numerous entities that have a written exit strategy in either an offering memorandum and/or other publications distributed to investors.*

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?

***Response:** We believe that an entity should be considered an investment property entity if the entity has investors who are unrelated to the entity's parent (if any) and those investors hold a significant ownership interest in the entity. We believe that additional interpretation of what is meant by a "significant ownership interest" should be provided to avoid inconsistent application of this criterion. Perhaps consider including a specific percentage of ownership interest in the entity or, at a minimum, provide further guidance on how "significant" should be interpreted.*

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)



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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?

Response: We agree with this exemption. However, we believe that the exemption should be expanded to include investor/investee relationships and not only parent/subsidiary relationships.

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?

Response: We agree with the proposed amendments that 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. Measuring non-investment properties at fair value will not provide value-added information to the users of the financial statements. Furthermore, we believe including changes in fair value of noninvestment properties in net income would distort financial results.

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



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which measurement attribute would you recommend for those right-of-use assets?

***Response:** Right-of-use assets should be measured at fair value with all changes in fair value recognized in net income. However, we believe that additional guidance should be provided for accounting for the fair value of the lease, which is different from the fair value of the right-of-use asset. We also believe that the proposed Update does not adequately address the consequences of measuring the liability at fair value.*

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?

***Response:** We believe that the consolidation principles under Topic 810 should apply to an investment property entity that has controlling financial interests in other entities. We do not believe it would be appropriate to exclude other controlling financial interests unless there is a specific exemption from the scope of Topic 810. As indicated in paragraph BC 11, the criteria to be an investment property entity focuses on the nature of the entity's assets, therefore, we believe it would be more meaningful to consolidate controlling financial interests. The assets of a controlling financial interest should be reflected on the balance sheet with the assets of the investment property entity. The investment property entity will then determine which assets should be measured at fair value.*

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



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of accounting requirements in Topic 323 appropriate for investment property entities? If not, why?

***Response:** We disagree with the proposed amendments that limit an investment property entity to apply the equity method to an investee that is an operating entity that provides services to the investment property entity. We believe that Topic 323 should still be applicable for equity method investments even though they do not provide services to the investment property entity. This is consistent with our response to Question 14 advocating consolidation.*

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?

***Response:** We believe that an investment property entity should continue to apply other U.S. GAAP for measuring its investments in which it does not have a controlling financial interest or cannot exercise significant influence.*

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



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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?

***Response:** We agree with the proposed amendments that require an investment property entity to measure its financial liabilities in accordance with other U.S. GAAP. However, there may be situations where it would make more sense to measure certain financial liabilities at fair value. For example, if an investment property entity has a favorable assumable mortgage, the buyer may be willing to pay more than the fair value of the property. Alternatively, if the investment property entity has an unfavorable assumable mortgage that has significant prepayment penalties, the buyer may pay less than the fair value of the property. An investment property entity is primarily characterized by the assets that it holds therefore, depending on what market participants would consider should dictate whether or not the investment property entity should measure its financial liabilities at fair value.*

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?

***Response:** Yes, we believe the proposed amendments of recognizing rental revenue are appropriate. However, we believe that additional guidance should be provided for the accounting by a lessor. The proposed Update is not clear in regard to how the model would be followed.*

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.

Response: No, we did not observe such instances.

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?

Response: We agree with the proposed disclosures for an investment property entity.

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?

Response: In order to avoid having different accounting policies in comparative financial statements, we believe that an entity should recognize the effect of adopting the requirements in this proposed Update as an adjustment to the beginning balance of retained earnings as of the beginning of the earliest period presented, rather than the period of adoption.

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

Response: We recommend that the effective date be no earlier than two years after the date that the Accounting Standard Update is issued. This would enable an entity to have enough time to gather the necessary information to present comparative financial statements.



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

Response: We agree with the proposed amendments not allowing early adoption. We agree that early adoption would reduce the comparability of financial statements of similar entities.

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?

Response: We agree that the proposed amendments should apply to both public and nonpublic entities.