

February 15, 2012

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

File Reference No. 2011-210

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

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Real Estate — Investment Property Entities* (Topic 973).

We support the Board's efforts to consider whether real estate investments (investment property) should be measured at fair value on a recurring basis through earnings. However, we do not believe that the proposed ASU should be finalized in its current form because we do not think that it will improve financial reporting for all entities with investment property. We are primarily concerned about the proposal's scope. The proposed ASU would preclude certain entities from measuring their investments in investment properties at fair value even though their investors may prefer fair value to be the primary measurement basis. Conversely, other entities may be required to measure their investments in investment properties at fair value while their investors may prefer historical cost to be the primary measurement basis.

Specifically, we are concerned about the proposed ASU's scope requirement under which, for an entity to measure investment properties at fair value, "**substantially all** of the entity's business activities" (emphasis added) must be investing in direct or indirect controlling interests in real estate properties. We question whether this high threshold would prevent certain entities from providing investors with decision-useful information about their investment properties. For example, an entity may be involved in other lines of business unrelated to real estate but still have significant investment property investments. We believe that it is inconsistent to require fair value measurement of the entity's investment property when 90 percent of the entity's investments are investment properties but prohibit it when the entity's investment property interests decrease to 60 percent.¹

We are also concerned that the proposed ASU's scope would prevent real estate entities that hold significant investments in real estate joint ventures or significant noncontrolling interests in real

¹ The proposed ASU does not define "substantially all" as 90 percent of the entity's business activities related to investing in investment properties. However, substantially all is commonly understood to be a high threshold in U.S. GAAP; we would therefore not expect that many would interpret "substantially all" to mean 60 percent.

File Reference No. 2011-210
February 15, 2012
Page 2

estate investees and partnerships from qualifying as investment property entities (IPEs). The proposed ASU would prohibit these entities from including their noncontrolling interests in real estate investments when evaluating whether they meet the business activities criterion. Accordingly, these entities may be prohibited from providing decision-useful information regarding the fair value of the investment properties that they hold directly.

We believe that the concept of an IPE should not be introduced; rather, these real estate entities should first be evaluated to determine whether they are investment companies. Real estate entities that meet the definition of an investment company would apply the measurement, presentation, and disclosure requirements in ASC 946. We acknowledge that real estate entities will need to apply professional judgment to determine whether they are investment companies,² but we do not believe that another entity-based financial reporting model specific to entities that invest in a particular asset class (real estate) is warranted.

Further, we believe that it will be difficult for the Board to establish an operational set of principles under which fair value is required only for those entities whose investors want fair value to be the primary measurement basis for their investment properties. Because of the difficulties associated with an entity-based approach, we recommend that the Board adopt an asset-based option approach rather than the approach in the proposed ASU. Under this approach, the Board would give all real estate entities that are not considered investment companies the option of measuring their investment properties at fair value through earnings (in a manner similar to that in IAS 40³). The fair value option would be an accounting policy election that would have to be applied to all investment properties owned by the entity. Although we acknowledge that a fair value option could reduce comparability among entities, it would enable all entities to provide (or continue to provide) fair value information to their investors. The potential comparability concerns could be addressed through additional disclosure requirements (further discussed in the appendix below).

Please see the appendix below for our detailed responses to the proposed ASU's questions for respondents. The appendix includes our suggestions for improving the proposed definition of investment property, which would be applicable regardless of whether the Board decides to give entities the option of measuring their investment properties at fair value or continues to follow the approach in the proposed ASU.

We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Adrian Mills at (203) 761-3208 or Trevor Farber at (203) 563-2547.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl, Deloitte & Touche LLP
Jim Schnurr, Deloitte & Touche

² Please see our February 15, 2012, comment letter on the Board's investment companies proposal (File Reference No. 2011-200).

³ IAS 40, *Investment Property*.

Appendix
Deloitte & Touche LLP
Responses to Questions for Respondents

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.

As noted above, we are concerned about the scope of the proposed ASU. Some entities that have significant investments in real estate would be improperly excluded. For example, life insurance companies often hold real estate as long-term investments that they intend to use to settle life insurance obligations arising in the future. Under the proposed ASU, these entities would not qualify as IPEs because substantially all of their business activities are not investing in real estate. However, giving such companies an option to measure their investment properties at fair value would allow them to provide investors with relevant information related to the assets that they intend to use to settle future insurance obligations. In contrast, the proposed ASU could potentially result in a requirement for equity real estate investment trusts (REITs) to measure their investments in real estate properties at fair value. Our understanding is that investors currently use the equity REIT's financial statements, which are prepared on a historical cost basis, to develop their own estimates of the fair value of the entity's properties. The Board should reach out to investors to determine whether they support a requirement for equity REITs to measure their real estate investments at fair value.

We do not believe that a separate entity-based financial reporting model should be developed for entities that invest in a specific class of assets, namely real estate. Instead of the approach taken in the proposed ASU, we recommend that the Board require entities that invest in real estate to first evaluate whether they are investment companies within the scope of ASC 946. Real estate entities that meet the definition of an investment company should apply the requirements in ASC 946. Entities that are not within the scope of ASC 946 but own investment properties should be given an option of measuring such properties at fair value through earnings (in a manner similar to that under IAS 40). The fair value option would be an accounting policy election that would have to be applied to all investment properties owned by the entity. We acknowledge that a fair value option could reduce comparability among entities, a concern that the Board could address by requiring additional disclosures. We observe that many fair value measurements of investment property will be classified in Level 3 of the fair value hierarchy. For recurring Level 3 fair value measurements, entities must provide information about the effect of the measurements on earnings for the period (i.e., the Level 3 rollforward). The Board could also consider requiring additional disclosures, such as the cost basis, location, and other characteristics of the investment properties, even if the fair value option is not elected. Such information would help investors estimate fair value for entities that do not elect to measure their investment properties at fair value.

Regardless of whether the Board decides to give entities the option of measuring their investment properties at fair value or continues to follow the approach in the proposed ASU, we believe that

the proposal's definition of investment property should be amended. See our response to Question 8 for our comments on the proposed definition of an investment property.

We also believe that the Board should further consider how rental income from investment property subject to a lease should be recognized. For our comments on the proposed revenue recognition model, see our response to Question 18.

Unless otherwise indicated, our responses to the questions below assume that the Board will retain the approach in the proposed ASU.

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.

See our response to Question 1.

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?

Below are our comments on the criteria for identifying IPEs. The Board should also consider our comments related to this topic in our February 15, 2012, letter on the Board's investment companies proposal (File Reference No. 2011-200).

Nature of Business Activities

We are concerned about the threshold requirement that "substantially all" of the entity's business activities must be investing in a real estate property or properties. This high threshold could prevent many real estate entities from providing their investors with relevant fair value information. Such entities might invest in other investments even though their primary focus is on real estate properties. That is, while the Board's objective seems to be comparability, two entities with the same primary business model may not be comparable on the basis of the ratio of qualifying assets to total assets. Thus, if the Board retains the approach in the proposed ASU, we recommend lowering the threshold from "substantially all" to primary (or a similar, lower threshold).

In addition, we are concerned that the proposed ASU will not achieve its objectives if holdings are limited to controlling interests in IPEs and do not also include all equity investments in other IPEs in which the investor entity has noncontrolling interests. For example, assume that half of an entity's investments are direct investments in real estate properties and that the other half are noncontrolling interests in IPE joint ventures that only hold investment properties. If the entity does not qualify as an investment company, the investment in the joint ventures accounted for under the equity method would be measured on the basis of the underlying fair value of the properties in the joint ventures while the directly owned properties would be measured at historical cost. We do not believe that this is the Board's intention.

Express Business Purpose

ASC 973-10-15-2(b) (added by the proposed ASU) states that the second criterion for whether an entity would qualify as an IPE is that “the express business purpose of the entity is to invest in a real estate property or properties for total return including an objective to realize capital appreciation, for example, through disposal of its real estate property or properties.” Further, the proposed ASU’s implementation guidance requires that an IPE have an exit strategy for its investment property. The nature of investment property is that it is always held for total return (i.e., both income and capital appreciation). It is not necessary or desirable to require that an entity assert that it has an exit strategy for its properties to qualify as an IPE. Such a requirement would effectively give entities an option not to apply the proposed ASU by asserting that they do not currently have an exit strategy in place.

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?

Although we agree that an entity should reassess whether it is an IPE, the boards should ensure that the final criteria for qualifying as an IPE do not result in entities’ fluctuating between qualifying as an IPE in one period and not qualifying in the next period, or vice versa.

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.

For more information about our preferred approach, see the introduction of this letter as well as our response to Question 1. We do not believe that a separate accounting model is required for entities that invest in real estate properties. Real estate entities (regardless of form) that are investment companies should have to apply the requirements for investment companies in ASC 946.

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.

We agree that the analysis to determine whether an entity is an IPE should include direct interests in real estate properties. In addition, we concur that this analysis should not include real-estate-related debt securities or mortgage receivables. However, as noted in our response to Question 3, we believe that the analysis should include **both** controlling financial interests in IPEs and all other equity investments in IPEs in which the entity has noncontrolling interests.

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?

See our responses to Questions 3 and 6.

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.

We agree with the exclusions that the Board lists above (and generally with the proposed ASU's definition of investment property, except as noted below).

Held for Investing Purposes

See our response to Question 3. Properties that do not meet either of the exceptions listed in this question are held for investing and should qualify as investment property. We do not believe that an entity can reasonably assert that such properties are not held for total return with an objective to realize capital appreciation. The nature of investment property is that it is always held for total return (i.e., both income and capital appreciation).

Portion of an Investment Property

We recommend that the Board provide guidance on situations in which only a portion of the investment property is held for the entity's own use. In addition, we believe that if a portion of a property can be sold separately, the entity should account for that portion separately (this would be similar to the requirements in IAS 40). For example, assume that an entity that purchases five acres of land develops one of these acres for its own use and the remaining four acres for investing purposes. Provided that the properties can be sold separately, the portions that are held for investing purposes should be accounted for as investment property.

If portions cannot be sold separately, the property would only be an investment property if an insignificant portion of the property is held for the entity's own use (e.g., in the production or supply of goods or services or for administrative purposes). In such cases, the entire property should be accounted for as an investment property and measured at fair value. For example, if one

floor of a 30-floor building is held for the entity's own use, the entire building should qualify as an investment property. We do not believe that using an insignificant portion of the property for the entity's own use should preclude the entity from applying investment property accounting.

Hotels and Other Similar Properties

We recommend that the Board further clarify how the definition of investment property should be applied to hotels and other similar properties (e.g., skilled nursing facilities) that may provide services other than renting space. Some may consider the land, building, and other integral equipment of a hotel to be for the entity's own use to provide a service, while others may see such properties as being investment property because the primary service is the renting of space. Although we recognize that entities would most likely need to use some judgment to make a final determination, we are concerned that the proposed ASU provides insufficient guidance on how to exercise this judgment. The Board should consider adding examples that illustrate when a hotel (or other similar property) is an investment property and when it is not.

Other Comments

The proposed ASU's definition of investment property should also be used if the Board agrees with an option approach, which we recommend in our response to Question 1. In addition to the changes to the definition of investment property that we suggest above, if the Board agrees to provide an option, the phrase "held by an investment property entity" should be removed from the definition of investment property in the proposed ASU.

Regardless of the approach taken, the FASB should work with the IASB to develop a converged definition of investment property. This definition is important not only for the investment property project but also for the boards' joint project on leases. For example, if the boards decide to base the scope of leased assets that will be subject to the proposed lessor model on the definition of an investment property, this definition would also affect the joint project on leases.

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.

See our responses to Questions 3 and 8.

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?

See our comments on this criterion in our February 15, 2012, letter on the Board's proposed ASU on investment companies (File Reference No. 2011-200).

An additional benefit of our recommended option approach is that there would be no need to address this issue (i.e., guidance on significant ownership interest would not be necessary).

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?

See our comments on these criteria in our February 15, 2012, letter on the Board's proposed ASU on investment companies (File Reference No. 2011-200).

An additional benefit of our recommended option approach is that there would be no need to address this issue (i.e., guidance on unit ownership or pooling of funds would not be necessary).

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?

We agree with these requirements. Fair value is not as relevant a measure when the property is held for purposes other than investment (e.g., if the entity's corporate headquarters is held for administrative and other operating purposes).

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?

We agree with these requirements. As an example, it is common for a company to enter into a long-term ground lease and then build an investment property on the land. Fair value is a relevant measurement for the long-term ground lease (i.e., the right-of-use asset) because its change in fair value could be realized. The investment property could be sold and the ground lease transferred with the investment property. The buyer would pay for the change in fair value of both the investment property and the long-term ground lease. Thus, in this situation, we believe that the ground lease should qualify as investment property.

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?

See our response to Question 1. There would be no need to address this question under our proposed option approach. An investment company would apply the guidance in ASC 946 in determining whether to consolidate an investment (see also our comment letter on the Board's

investment companies proposal), while a noninvestment company would apply ASC 810 to make this determination.

We would follow this same reasoning for all other investments noted in Questions 15 and 16 (e.g., equity method interests, cost investments). Noninvestment companies would apply other U.S. GAAP.

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?

See our response to Question 14.

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?

See our response to Question 14.

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?

We agree with the Board's decision that an IPE should measure its financial liabilities (such as its own debt) in accordance with other U.S. GAAP and thus typically at amortized cost. However, the Board should further consider, as part of its accounting for financial instruments project, whether there are limited circumstances in which an accounting measurement mismatch may occur and thus warrant fair value accounting for a liability (e.g., debt that will only be paid through attaining value from, and will only be recourse to, specified real estate).

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?

If the Board requires an IPE to report "rental revenue" related to leases of its investment properties separately from fair value changes, the rental revenue reported should be consistent with how the Board believes non-IPE lessors should recognize revenue related to their leases. We recommend aligning the guidance on measuring an IPE's "rental revenue" with that in the lease standard. We believe that it would be confusing to have different measures of "rental revenue" for

the same economic transaction (a lease), differentiated on the basis of whether a leased property was deemed investment property (or owned by an IPE) or just property (or owned by a non-IPE).

Alternatively, the Board may determine that the periodic lease payments are not rental revenue subject to a lease standard but periodic realizations of the property's value. In that case, an income pattern different from rental revenue under the lease standard may be justified, such as a pattern that corresponds to the realization of cash payments (similar to that proposed in the ED). In this case, the Board would need to consider whether such income should be presented as revenue or a gain. In addition, further consideration of this approach would be warranted if the amount would be presented as part of total revenue, since this method of recognition could be subject to manipulation. For example, we are concerned about the potential to front-load or back-load payments to achieve a particular revenue recognition pattern.

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.

We agree with the Board's decision to permit, as a practical expedient, an entity to estimate the fair value of its investment in an IPE (that carries substantially all of its investments at fair value) by using the net asset value (NAV) per share (or its equivalent) of the investment. However, we have some concerns about the additional requirement for the entity (or IPE) to "transact at the net asset value per share." In the absence of a readily determinable price, the use of NAV as a practical expedient should be limited to situations in which the NAV is a reasonable approximation of fair value (e.g., because substantially all of the assets are measured at fair value). The fact that the IPE does not stand ready to transact at NAV should not be a determining factor in whether NAV can be used as a practical expedient to measure fair value. If the Board includes such a requirement, it is likely that certain investments would no longer qualify for the practical expedient (e.g., private real estate investment fund interests that are not redeemable at NAV until liquidation occurs). NAV may still be a reasonable estimate of fair value for such interests since substantially all of the underlying investments are measured at fair value. At a minimum, the Board should clarify what is meant by the phrase "would transact." The Board should consider explaining whether this constitutes a requirement that the entity (investee) stand ready to transact at NAV as of the measurement date or whether NAV would be the basis of a transaction between the investor and the entity if one were to occur in the future (e.g., at liquidation).

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?

We agree with the proposed ASU's disclosure requirements and with the requirement for IPEs to provide disclosures in accordance with other applicable guidance (e.g., ASC 820).

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?

We agree with the proposed ASU's transition requirements. Prospective application is appropriate because retrospective application would require IPEs to determine fair value from prior periods, which may not be available or may not have been audited. In addition, retrospective application could be costly and it may be difficult to determine fair value from prior periods without considering current market conditions.

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

We recommend that the Board reach out to preparers, asking them to estimate how much time they would need to implement the proposed amendments. As a general observation, we believe that 18 months between the final standard's issuance and effective date would be enough time.

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

We do not object to the proposed amendments related to prohibiting early adoption.

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?

We agree that the proposed guidance should apply to both public and nonpublic entities. The Board should consider providing additional transition time for nonpublic entities (e.g., delaying the effective date for nonpublic entities by one year).

Other Matters

The proposed ASU would require that an investment property be initially measured at its transaction price. ASC 973-360-30-1 (added by the proposed ASU) defines transaction price as including all of the following: (1) "professional fees," (2) "property transfer taxes," and (3) "other transaction costs that are part of the purchase transaction." We recommend that the Board clarify that only transaction costs that are **directly attributable** to the purchase of an investment property should be included in the initial measurement of an investment property.

We agree with the Board's decision in ASC 973-805-30-1 (added by the proposed ASU), which would require that the fair value measurement of an investment property acquired in a business combination include expected cash flows under any leases. Thus, an entity would not separately record an above- or below-market lease asset or liability. Certain other requirements in ASC 805 would be relevant if an entity acquires an investment property in a business combination (e.g., transaction costs must be expensed as incurred). We recommend that the Board clarify whether all of the requirements in ASC 805 related to business combinations should be applied when an investment property has been acquired in a business combination, including how transaction costs should be treated.