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Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
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February 15, 2012

Re: File Reference Number 2011-210

Duff & Phelps Corporation (NYSE: DUF) appreciates the opportunity to provide comments on the Exposure Draft of the Proposed Accounting Standards Update Real Estate—Investment Property Entities (Topic 973).

We would be pleased to further discuss our comments with the Board and staff. Please direct any questions to David Larsen at (415) 693-5330 or Ross Prindle at (312) 697-4740.

Sincerely,



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David L. Larsen, CPA  
Managing Director



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Ross Prindle  
Global Real Estate Leader

## **OVERALL COMMENTS**

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

**General D&P comment:** Having separate accounting guidance on investment companies and investment property entities, the primary difference for which is based on the portfolios of assets held and the returns sought, creates undue complexity. We recognize that the following factors may have contributed to the development of two separate models for “investment entities” (broadly speaking):

- Existing accounting guidance that has been in place in U.S. GAAP on investment companies
- The lack of such equivalent guidance in IFRS in the past
- The joint Leases project the Boards undertook
- Its proposed scope-out of lessors of investment property, and
- The existence of investment property guidance in IFRS.

However, we believe that there should be one standard for “investment entities” that does not distinguish between investment companies and investment property entities. Both share the principle that the entity buys, manages and may sell investments with the broad objective of realizing an investment return. The fact that an entity can fall into either the investment company or the investment property guidance, or out of one but into the other, or possibly be excluded from both, is another sign that artificial lines of distinction have been created between the two.

Investors in investment entities generally are required to report their investments at fair value, and/or use fair value in decision making. In developing the criteria to be used to describe these investment entities, the focus should be on the needs of the investor, and whether fair value reporting would be relevant to the investor. Therefore, we believe that investment entities should report all of their investments at fair value.

In the same spirit, the guidance needs to be less restrictive about other activities that an investment entity might perform, which may include some degree of management services related to the investments. Absent this, the exclusion of such activities may lead to very limiting interpretations that may scope out entities for which investors may seek and require fair value information<sup>1</sup>.

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<sup>1</sup> For example, investments in office properties for which some building management services are required.

As is the case with other areas of financial reporting, the accounting treatment of the assets and liabilities of an entity should reflect its business model. Thus, if the entity's business model is to generate investment returns for investors, allowing for other activities in support of this mission, and the investors need fair value reporting, then this entity should be reporting at fair value as an "investment entity". We urge the Board to consider this approach both in the interest of developing principles-based guidance and simplifying reporting requirements.

Our comments below are subject to the foregoing position.

### **Scope**

**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.

### **D&P response:**

Fair value measurement of investment properties is operational as the data is available in the marketplace to calculate fair value and independent third party valuation firms can assist in this process.

We understand that an asset-specific approach in defining the population of investment properties that would be subject to fair value measurement may result in unwanted consequences. While the IASB has taken an asset-specific approach in IAS 40, the fact that fair value measurement is an option and not a requirement under IAS 40 mitigates such consequences. Since the desire is to not have an option in U.S. GAAP, but a fair value measurement requirement in order to increase comparability, we think that an entity-oriented approach is a more workable solution. Thus, the determination of whether an investment property should be measured at fair value would depend on whether it is held by an investment entity, whose business model is to generate investment returns for investors, rather than have all investment properties be measured at fair value.

Also please refer to our earlier comments on removing the distinctions between investment property entities and investment companies.

**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.

**D&P response:**

We believe this should be a requirement rather than an option in order to provide comparability and transparency for 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?

**D&P response:**

As discussed earlier, we believe that the criteria identifying those entities that need to report their investment properties at fair value need to be expanded, and the distinction between investment property entities and investment companies should be removed (i.e., there should be a single “investment entities” standard).

That said, we agree that entities reporting investment properties at fair value should be excluded from the lessor accounting model in the proposed Update on Leases.

**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?

**D&P response:**

We agree that this 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.

**D&P response:**

As stated earlier, we do not believe that a distinction should be made between investment companies and investment property entities, as both entities invest in various assets to generate an investment return for investors. The needs of the investor should be considered in determining fair value reporting needs, rather than focusing on the types of assets held in the portfolio.

**NATURE OF THE BUSINESS ACTIVITIES**

**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.

**D&P response:**

The activities should not be limited to real estate properties only, but should include investing in real estate assets in general (real estate related debt and receivables). The issue is not one of operationality but one of providing relevant information to investors.

**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?

**D&P response:**

In our opinion, the evaluation of the entity's business activities should take into account properties held through noncontrolling financial interests. The entity may choose to invest via noncontrolling interests to gain exposure to various investments, or form joint ventures to aid in the management of the investments; further, collectively these indirect investments may amount to a significant share of the entity's assets and activities. The fact that the entity cannot look through these noncontrolling interests in determining its business model may result in reporting that does not provide relevant information to the investors.

### **EXPRESS BUSINESS PURPOSE**

**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.

#### **D&P response:**

The entities and situations listed above relate to the use of real estate properties as operating assets, rather than as investing assets. As such, we agree that they should be excluded from the scope of the guidance and do not foresee any operational issues in regard to the above. However, as discussed earlier, we urge the Board to focus on the needs of the investor in developing criteria for investment entities broadly, in which the investor's need for fair value reporting would drive the decision to include/exclude entities from the scope.

**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.

#### **D&P response:**

We believe that entities should not be excluded on the basis that they have not communicated an exit strategy, or because their investment model does not contemplate a definitive exit strategy. If the real estate property is held broadly for investment returns, it should be recorded at fair value.

#### **UNIT OWNERSHIP AND POOLING OF FUNDS**

**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?

#### **D&P response:**

While we agree that non-related investors must be present, we do not think that the non-related investors need to be the majority investor or hold a significant ownership interest. We also believe that the criteria should be flexible enough to allow for managed accounts with a single investor. What needs to be considered is the reporting needs of the investors. Further, it should be noted that there may be few outside investors and/or they may be holding a small ownership interest, especially in the start-up phase.

**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?

#### **D&P response:**

We understand that this exception allows the above subsidiaries to qualify under the investment property entity guidance and measure their investment properties at fair value, and thus facilitates the fair value reporting at the parent entity level (as the parent is either required or permitted by other GAAP to measure their investments at fair value). In the spirit of providing more fair value information to investors, we agree with the exemption above, as well as with having exemptions in other circumstances in which the investors (including the parent) needs fair value reporting.

#### **MEASUREMENT**

**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?

**D&P response:**

We believe that the investment property entity should be required to measure all investments as well as other assets it holds at fair value with the resulting changes recognized in net income. It is unlikely that an investment company or an investment property entity would use investor funds to purchase operating assets. Refer to our earlier comments on removing the distinction between investment property entities and investment companies.

**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?

**D&P response:**

We agree that an investment property entity should be required to measure the right-of-use assets at fair value with changes recognized in net income.

**INTERESTS IN OTHER ENTITIES**

**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?

**D&P response:**

We believe that consolidation is appropriate in the above circumstances as it provides more detailed and transparent fair value information to the investors (we understand that fair value would be required in consolidation when the consolidated subsidiary is either another investment property entity or an investment company).

Service related subsidiaries may deserve alternative treatment based upon the source of their funding. To the extent that investor funds are specifically used to acquire the interest in such a subsidiary then, because investors in an investment entity need fair value information, we do not believe that it is preferable for an investment entity to consolidate a service related subsidiary. Alternatively, if the management company (or fund advisor) rather than investors acquired the subsidiary interest then consolidation would be preferable. The question is somewhat moot as the service subsidiary would likely be part of the management company.

**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?

**D&P response:**

We agree that this is appropriate as it would provide more fair value information to investors.

**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?

**D&P response:**

We believe such investments should be measured at fair value. Also, please refer to our earlier comments on removing the distinction between investment property entities and investment companies.

**FINANCIAL LIABILITIES**

**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?

**D&P response:**

We agree that the investment property entity's own financial liabilities should be measured at fair value. All assets and liabilities of an investment entity should be reported at fair value to provide investors with the requisite information.

We also strongly recommend that FASB provide implementation guidance specifically in an investment company context and clarify the circumstances in which the fair value of the entity's own debt is equal to par value, as misinterpretations in practice exist.

Also please refer to our earlier comments on removing the distinction between investment property entities and investment companies.

#### **RENTAL REVENUE RECOGNITION**

**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?

#### **D&P response:**

We agree that recognizing rental income when received or when receivable is more appropriate than a straight-line basis for recognition. This will allow the related investment property to be measured at fair value without an adjustment to remove any double-counting of rents, which would otherwise render it a non-fair value measurement.

#### **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.

#### **D&P response:**

We are not aware of such instances. Theoretically, however, the NAV computed or reported by an entity to investors may be different from what an NAV would be if computed in accordance with the ASC 820 fair value requirements.

#### **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?

**D&P response:**

We do not believe that additional disclosures are needed. Further we note that the recurring fair value measurements of investment properties would be subject to the extensive ASC 820 disclosure requirements.

**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?

**D&P response:**

No comment.

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

We believe that 12 months would be a sufficient time to implement the proposed amendments, also considering that some entities may be reporting at fair value for the first time.

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

**D&P response:**

The only concern we have about allowing for early adoption would be the lack of comparability for a brief period of time. On the other hand, investors would benefit from more relevant information from early adopters.

**NONPUBLIC 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?

**D&P response:**

We believe that there should not be different requirements for investment entity reporting between public and private companies.