Via Electronic Mail (director@fasb.org)

Technical Director - File Reference No. 1850-100
Financial Accounting Standards Board
401 Merritt 7 - PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1850-100 Proposed Accounting Standards Update, Topic 840: Leases; issued August 17, 2010

Dear Board Members and FASB Staff:

Principal Real Estate Investors ("PrinREI") appreciates the opportunity to comment on Proposed Accounting Standards Update, Topic 840: Leases ("proposed guidance"), jointly issued by the Financial Accounting Standards Board and the International Accounting Standards Board (the "Boards"). Our comments are made in consideration of the anticipated release of the FASB’s exposure draft on the proposed accounting for Investment Properties and the potential scope exception to the proposed guidance for lessors reporting properties at fair value. In our opinion, it is imperative that the FASB delay discussion on the proposed lease accounting guidance for lessors or release an Investment Properties exposure draft in a timely manner so that these issues can be discussed concurrently. We request that the issuance and effective dates of the proposed Investment Properties standard and any portion of the proposed Leases accounting guidance related to lessors be aligned.

We have responded to the request for comment in a format that includes a summarization of our thoughts and concerns regarding the anticipated impact on our industry, as well as individual responses to specific questions provided in the exposure draft which can be found in Exhibit A. Our comments and answers to those questions are prefaced by a brief discussion of PrinREI.

Principal Real Estate Investors

PrinREI is the dedicated real estate investment affiliate of Principal Global Investors, a family of institutional asset management companies. PrinREI is the fourth largest institutional real estate manager in the United States based on tax-exempt real estate assets under management¹ with $33.5 billion² of assets under management as of September 30, 2010. $14.2 billion of these assets under management is comprised of private market equity strategies including core, value-add and opportunistic separate accounts and commingled funds.

¹As of June 30, 2010 "out of 99 managers profiled" Pension & Investments magazine, Sept. 10, 2010
The various private market real estate equity strategies managed by PrinREI include entities reporting on both a historical cost and fair market value basis. Entities reporting on a fair market value basis do so under the guidance provided in Accounting Standards Codification ("ASC") Topic 960, Plan Accounting – Defined Benefit Pension Plans (i.e. former FASB Statement of Financial Accounting Standards No. 35), Governmental Accounting Standards Board ("GASB 25"), Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Topic 946, Financial Services – Investment Companies, (former AICPA Audit and Accounting Guide: Investment Companies).

PrinREI is providing comments from both real estate historical cost and fair market value reporting perspectives. The focus of our comments is related to the proposed accounting by lessors.

**General Comments**

Real estate property assets are unique relative to other leased assets such as machinery and equipment. Each real estate asset typically has multiple lessees, appreciates over time, and is actively managed. We strongly believe the accounting proposed in the exposure draft, *Leases*, would distort the financial statements of both historical cost and fair market value reporters.

- As mentioned previously, we believe it is crucial that the discussion of the proposed *Leases* and *Investment Properties* guidance be aligned. Since both of these proposed standards may have a potentially significant impact for us, we feel that it is prudent to evaluate them concurrently to ensure that the accounting outcome reflects the underlying economics of the business.

- It is our view that real estate entities which currently report under a fair market value reporting model should be excluded from the scope of the proposed guidance. PrinREI believes that the fair value reporting currently performed by lessors within our industry is a relevant and faithful representation of the economics of real estate investing.

We also believe the proposed guidance may have significant unintended negative consequences to the business fundamentals of real estate investing.

PrinREI recognizes and appreciates the overall objectives of the Boards which include the improvement of financial statement transparency, provision of a principal-based set of standards, and alignment of lease accounting with the Boards’ conceptual framework as it applies to the definitions of assets and liabilities. However, to expand on our general comments above, we have submitted the following more specific concerns related primarily to the proposed guidance’s effect on the accounting by lessors.

**Specific Comments**

- There are several factors that inherently distinguish real estate leases from leases of other asset classes. Most importantly, the lessors of real estate are actively involved in the strategic and continuous management of the leased properties. This management is far different than financing the acquisition of equipment through a lease agreement. Real
estate rentals depend primarily on the on-going management of the asset—changing the tenant mix, moving tenants to fully utilize space and reconfiguring or renovating space. In contrast to lessors of other leased assets (a depreciating piece of equipment), lessors of real estate have the ability to maximize investor returns by taking advantage of value enhancement opportunities available through active and constant management of the asset.

From an economic perspective, leasing real estate is an investment activity and not a financing activity. A real estate lease agreement between a lessor and a tenant is the result of a market driven negotiation, related closely to the demand and supply for physical property/tenant space. There is generally no interest rate implicit in a real estate lease and no residual value is assigned to individual leases.

Real estate lease agreements, which in general range from 3 – 15 years, represent only a small portion of the useful life (40 plus years) of the leased asset. In contrast, the lease term for other leased assets, including equipment, generally represents a significant portion of the useful life of the leased asset. Multiple leases will be executed over the useful life of the lease real estate asset as compared to an equipment lease which would typically be for the entire useful life of the leased asset.

The residual value of a real estate property, with multiple leases, would generally represent a much greater portion of the value of the asset than does the residual value implicit in equipment leases.

Because of the significant differences between the business and economic characteristics of real estate leases and equipment or other asset leases, we believe that the lessor accounting for real estate leases should be distinguished from the accounting for equipment leases. The accounting for real estate leases should reflect the unique economic characteristics of those leases. It is our belief that the current proposed guidance does not meet this goal.

- The existing guidance under ASC Topic 840 (formerly known as SFAS 13 Accounting for Leases), which has been in effect since November 1976, provides an objective and relevant reflection of the economics of real estate lease transactions from the lessor’s perspective. Several of the specific requirements included in the proposed guidance are very subjective in nature and would likely result in more inconsistency in the reporting by lessors.
  
  - Criticisms of existing lease accounting standards have generally focused on the lessee’s accounting for operating leases. PrinREI believes that lessor accounting should not be impacted in such a significant way as a result of the need to improve lease accounting by lessees.
  
  - There are many precedents within GAAP where symmetry of accounting is validly not applied. We believe that this is the case for the treatment of real estate leases by lessors and lessees. The fact that tenants and property owners view leases very differently (business objectives of a lessor and lessee are different when entering into a lease), provides strong support for the position that symmetry of accounting by lessees and lessors of real estate leases may not be appropriate.
• We do not believe that the impact of the proposed guidance on real estate entities will provide a faithful representation of income and expense related to lease transactions between landlords and tenants. PrinREI believes that the proposed guidance will result in an income statement presentation that is inconsistent with the underlying economics of a real estate lease. The front-loading effect on income statement activity of both the lessor and lessee due to the proposed interest method of amortization is a true distortion of the economics of the lease revenue stream and a mismatch with the operating expenses (generally increasing throughout the lease term) resulting from the tenant’s occupancy of the space.
  o As previously stated, we believe that real estate leasing is an operating activity, not a financing activity. As such, we feel that rental income and the related property expenses should included in operating earnings and not as a component of interest.

• The proposed performance obligation methodology guidance would result in a double-counting of assets from both a historical cost and market value reporting perspective and would create distortion and confusion relating to a lessor’s balance sheet.
  o Lessors who report on a historical cost basis currently allocate the purchase price of real estate assets per the guidance of ASC Topic 805 Business Combinations (formerly FAS 141R). Under that guidance, a portion of the purchase price is allocated to the value of the leases in place. The leases in place portion of the purchase price allocation would be very similar to the lease receivable balance determined under the right-of-use model in the proposed guidance, resulting in a double-counting of assets on a historical cost reporter’s balance sheet.
  o The discounted cash flow method is a common valuation approach for lessors preparing financial statements on a fair market value basis. A significant component of the market value derived using the discounted cash flow method is related to the cash flow streams of the leases in place. Recording a lease receivable under the right-of-use model in the proposed guidance would also result in a double-counting of assets on a fair market value reporter’s balance sheet.

• PrinREI estimates that the costs to implement the proposed guidance will be very significant. Lessors and lessees do not currently have the infrastructure or systems necessary to account for the incremental balance sheet assets and liabilities that would be reported. For lessors with thousands of leases, the cost of performing the ongoing review of facts and circumstances with respect to contingent rentals and renewal option assumptions would be enormous since those assumptions could not be automated. The associated costs relative to the anticipated benefits of the proposed guidance would likely not meet economical cost-benefit criteria.
  o Much of the anticipated cost of implementing the proposed guidance relates to the effort required to analyze the lease renewal and contingent rental portions of the calculation methodology.
  o The quarterly re-assessment of the balances would also require a significant effort.

Our responses to the specific questions proposed in the exposure draft are included at Exhibit A to this letter.
PrinREI appreciates the Boards’ efforts to solicit information and comments regarding the proposed guidance on *Leases*, but believes those efforts should be further extended to explore the lessor model more thoroughly and completely. There does not appear to be evidence to support that the existing lessor accounting model is broken or ineffective. We believe the introduction of the proposed lessor models increases the confusion under a principal-based set of rules and does not meet the goal of providing financial statement transparency or faithful representation to investors. For the model to be operational, the principles and implementation guidance must be shown to work effectively for all types of leases. We believe issues will surface through field testing indicating that financial reporting under the proposed guidance will distorts the economics of real estate lease transactions and will not provide useful information to the reader of real estate entity financial statements.

We would be pleased to discuss our comments above or the answers to the specific questions at Exhibit A with you at your convenience. Should you wish to discuss the contents of this letter with us, please feel free to contact one of us.

Very truly yours,

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Exhibit A – Response to Specific Exposure Draft Questions - *Leases*

Question 1: Lessees
(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

*Response:*
We agree that lessees in general should recognize assets and liabilities as indicated above if it is the Boards' sole intent for lessees to comply with the Boards’ conceptual framework regarding the definitions of assets and liabilities. However, as explained in detail above there may be significant negative and unintended material consequences to the real estate leasing industry as a result of the proposed guidance. If the Boards elect to proceed with the proposed guidance, notwithstanding the concerns of its constituents, we urge the Boards to revisit their definitions of *lease term* and *lease payment* and consider limiting their determination to contractually enforceable lease terms and omit proposed requirements to consider potential lease renewals and variable rent components.

(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?
Response:
No. We disagree with the proposed requirements for lessees of real estate to record amortization and interest expense in place of rental expense. We indicated above that these accounting requirements are indicative of a finance arrangement when in fact and substance, a lessee has specifically entered into a lease to occupy real estate as an alternative to acquiring direct ownership of a property through a finance arrangement. Financial statement metrics in our opinion would be negatively impacted if rental expense was not reported. Given the economic useful life of brick and mortar real estate which generally exceeds forty-years, the average commercial real estate lease term of 3-15 years is not indicative of a finance arrangement to acquire property.

We urge the Boards to reconsider and allow lessees to report rental expense as they currently do under the existing guidance of ASC Topic 840 (formerly FAS 13). Right-to-use assets and liabilities to make lease payments can be amortized, or reduced equally on an effective yield method. Although the lessee would not record amortization or interest expense in the financial statements such amounts and other information relevant to the real estate lease, including the incremental borrowing rate, could be disclosed in the footnotes to the audited financial statements.

Question 2: Lessors
(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?

Response:
No. We disagree that a real estate lessor should apply either approach described in parts (i) and (ii) of 2(a). As indicated previously, we feel that the current lease accounting for lessors who report on either a historical cost or fair market value basis appropriately reflects the underlying economics of real estate leasing transactions.

Application of the performance obligation approach under the proposed guidance would result in the double-counting of assets and would not provide incrementally beneficial information to the users of lessor’s financial statements.

We also disagree conceptually with the application of the derecognition approach to real estate leases. As indicated in the summary of our opinion above, this approach is inconsistent with the current derecognition guidance in ASC Topic 360: Property, Plant, and Equipment, which in our opinion provides a more accurate model regarding the real estate derecognition.

(b) Do you agree with the Boards’ proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?
**Response:**

Please see response to Question 2(a) above.

Regarding the performance obligation approach, we disagree with the proposed requirement for lessors to record amortization and interest income in place of rental income. We previously stated our opinion that these accounting requirements are indicative of a finance arrangement when in fact a real estate lessor has specifically entered into a leasing arrangement with no intention to dispose of the property under a finance arrangement with a lessee.

Financial statement metrics would be negatively impacted given the inability to report rental income and are inconsistent with the economics of a long-term real estate lease arrangement in which neither party intended for ownership of the leased property to transfer during the lease term. The front-loading effect on income statement activity of the lessor and lessee due to the proposed interest method of amortization is a true distortion of the economics of the lease revenue stream and a mismatch with the operating expenses (generally increasing throughout the lease term) resulting from the tenant's occupancy of the space.

As stated in our response to Question 2(a), we disagree that the derecognition approach can be applied to real estate leases.

(c) Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?

**Response:** We agree.

**Question 3: Short-term leases**

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

**Response:**

Yes. Short term leases (term or 12 months or less) are not common in the commercial real estate industry, with the exception of residential real estate properties. We agree that short-term leases should be accounted for as outlined in the proposed guidance. We also believe that the proposed guidance should be clarified to ensure that leases which include language allowing the lessee to extend the term of the lease on a month-to-month basis after the initial term should be scoped into this guidance.

**Question 4: Definition of a lease**

(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

**Response:**

Yes. A lease is a contract in which the right to use a specified asset or assets is conveyed for a period of time in exchange for consideration. Leases for real property transfer the
right to use a specific portion of the real property from the landlord to the tenant in exchange for rent.

(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?

**Response:**
No. We do not agree with the criteria in paragraph B-9 or B-10 for distinguishing a lease from a contract that represents a purchase or sale as it relates to real estate.

Under the “derecognition” approach, a lessor who does not maintain significant exposure to risks and rewards associated with the leased asset is required to derecognize a portion of the asset, indicating a partial sale or the transfer of a portion of the property’s value to the lessee. This presentation would reflect a view very different from the economic and legal substance of the transaction. Regardless of the lease terms, it is unlikely that an owner (lessor) of real estate would transfer their legal responsibility for a property without legally transferring title, in whole or partially, to a third-party.

For those reasons, we disagree that the derecognition approach is appropriate for real estate leases where a bona fide sale has not occurred and propose that the derecognition approach include a scope exception for real estate lessors. In our opinion, the sale or derecognition of real estate should continue to be accounted for under existing guidance in Topic 360-20, *Real Estate Sales*, section 40-5 and related literature which require the following:

a. A sale is consummated
b. The buyer’s initial and continuing investments are adequate to demonstrate a commitment to pay for the property
c. The seller’s receivable is not subject to future subordination
d. The seller has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property

(c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

**Response:**
Yes. We think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient.

**Question 5: Scope exclusions**
Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?
Response:
No. We urge the Boards to exclude lessor accounting for leases of real estate held for investment from the scope of the proposed guidance. We believe that, at a minimum, the proposed guidance relating to lessors should be delayed and considered concurrently with the Investment Property discussion.

The reasons for our position were discussed previously in the general and specific comment sections of our letter.

Question 6: Contracts that contain services components and lease components.
Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If no, how would you account for contracts that contain both service and lease components and why?

Response:
We believe that changes should be made to the current language regarding service and lease components. The proposed guidance would require that lease payments be allocated between the lease component and any service component when the other services are distinct. If the service component is not distinct then the entire contract is accounted for as a lease. We believe that the service component should be treated as distinct and accounted for separately, under that premise the principles in the joint FASB/IASB project on revenue recognition should apply.

Given the volatility inherent in the new lease probability model adding the incremental effect of service contracts would further subject the recognition of the right to use asset and liability to constant change. We believe that service contracts such as maintenance, security and, janitorial services should be accounted for as they have been in the past - as a separate component of income.

We urge the Boards to provide additional guidance on distinguishing lease components from components which should not be treated as part of the lease. We believe that a triple net lease whereby the tenant pays certain expenses of the property directly and a lease whereby a landlord is reimbursed for those expenses (i.e. common area maintenance, insurance, and property taxes) should be treated consistently. Any reimbursements to the landlord of such expenses should be recognized as incurred and not considered part of rental revenues for calculation of the lease asset or liability.

Question 7: Purchase Options
Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

Response:
Yes, given the uncertainty of a lessee exercising a purchase option.
Question 8: Lease term
Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease?

Response:
No. We believe that lease renewal options do not meet the definition of an asset or a liability until such options are exercised and become contractually enforceable. Accordingly, we request the Boards to reconsider the definition of “lease term” so that the definition is solely determined based on the contractually enforceable term of the executed lease which excludes unexercised options to extend or terminate the lease.

In addition, inclusion of unexercised lease renewal periods using the “longest possible term that is more likely than not to occur” approach is an attempt to reflect the “entity’s reasonable expectation of what the term will be” (BC 118). We do not believe that this approach is free from the measurement reliability problems inherent in the other approaches considered by the Boards (BC 120). While acknowledging the diversity and complexity of lease structures, the fact remains that real estate lease renewal options are typically unilateral in nature and that the lessee can choose not to renew a lease despite economic motivations to the contrary. Given the long-term nature of real estate leases, determining renewal probabilities is highly subjective and based on a large number of uncontrollable and unforeseeable variables. The users of financial statements would be ill-served if unexercised lease renewal options are reflected as assets and liabilities; inferring that the related future cash payments are reasonably predictable on the reporting date.

If unexercised lease renewal options are included in the financial statements, there is a concern that probable contractual cash flows will be lost amid cash flows that cannot be reasonably predictable relating to portions of the lease contract that are not enforceable on the reporting date. This is inconsistent with the Boards’ transparency objectives. Of equal concern is the high degree of subjectivity in calculating renewal probabilities, allowing for a manipulation of results and undermining the Boards’ comparability objectives. Additionally, these subjective estimates will most likely lead to lessees and lessors drawing different conclusions and thus different values for the same lease.

If not, how do you propose that a lessee or a lessor should determine the lease term and why?

Response:
We propose that both the lessee and the lessor determine lease term based on the contractually enforceable term of the executed lease which excludes unexercised options to extend or terminate the lease. We take this position because only the contractually enforceable term of the executed lease gives rise to an asset and a liability for the lessee and lessor.
This definition of lease term accomplishes the Boards’ transparency objectives relative to the term of the lease that can be reasonably predicted. This definition of lease term accomplishes the comparability objectives of the Boards providing:

- Comparability between lessee and lessor because the definition of “lease term” is based solely on non-subjective criteria relative to both parties of the lease (contractually enforceable term of the executed lease)

- Comparability between lease transactions without introducing the high degree of subjectivity required to estimate renewal probabilities and the ongoing volatility created by updates to these renewal probability estimates.

We believe that this proposed definition of “lease term” will result in unexercised lease renewal options being treated more consistently with similar types of unexercised options that do not utilize the “more likely than not to occur” recognition criterion under US GAAP.

**Question 9: Lease payments**

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique?

**Response:**

Yes, but subject to the following discussion. Contingent rentals, expected payments under term option penalties, and residual value guarantees should be included in the measurement of assets and liabilities using the expected outcome technique described in 14 (a)-(c) if such payments are material, can be reliably measured or estimated and inclusion is limited to the contractually enforceable term of the executed lease.

Why or why not?

**Response:**

Relative to the contractually enforceable term of the executed lease, the liability to pay contingent rentals and the right to receive contingent rental payments exist at the date of inception of the lease. It is only the amount to be paid that is uncertain, thus the expected outcome technique should be used to reliably measure these assets and liabilities. As stated in our answer to Question 8, we believe that lease renewal options do not meet the definition of an asset or a liability until such options are exercised and become contractually enforceable, thus contingent rentals relating to unexercised lease renewal options should not be included.

If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

**Response:**

Discussed above.
Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured?

Response: Yes.

Why or why not?

Response: Accurate financial statements will result only if the underlying information can be reliably measured.

Question 10: Reassessment:
Do you agree that lessees and lessors should re-measure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous period? Why or why not? If not, what other basis would you propose for reassessment and why?

Response: As indicated in our response to Questions 8 & 9, we believe the lease term should be based on the contractually enforceable term of the executed lease, and contingent rentals should be included only to the extent of the contractually enforceable lease term. Any reassessment should be limited to those assumptions. Additionally, with the significant number of leases that a lessor may have in a single building, any reassessment should allow for grouping or tranching of leases based on reasonable criteria. Without consideration to these points, reassessment as proposed would be very burdensome and add undue volatility to the financial statements without any benefit, as the judgments and assumptions being reassessed are highly subjective in nature and not based on contractual commitments.

Question 11: Sale and leaseback:
Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would your propose and why?

Response: No, we believe that the paragraphs 66-67, B9-10, B31 and BC160-167 list different requirements for a sale than the ASC Topic 360 (formerly SFAS 66) and ASC Topic 840-40 (formerly SFAS 98), specifically in their definition of “continuing involvement”. The new requirements would allow transactions that previously were not considered sales to be recorded as a sale. Paragraph B31 a) limits the purchase option requirement only if that option price is not fair value.

We don’t feel that the fair value of the asset at the end of the lease term can be reliably determined at lease inception if the option price is a stated amount. This uncertainty would likely cause variances in the application of the standard and produce inconsistent results from similar transactions within the real estate industry.
We propose altering the paragraph B31a) to include a definition of “continuing involvement” which would not limit purchase options, which may or may not be at fair value, since that determination cannot be made at the beginning of the lease for stated amount options.

Question 12: Presentation, Statement of financial position:

(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, or investment property as appropriate, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?

Response:
Notwithstanding the significant concerns previously outlined in our comments, we agree that this concept, from a lessee perspective, seems consistent with the underlying economics of the real estate lease transaction and increases transparency.

However, we feel that the Boards’ objectives related to the proposed guidance for lessees might be accomplished more effectively by enhancing and supplementing the current footnote disclosure required of lessees in accounting for real estate leases.

(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

Response:
As noted previously, we believe splitting the recognition and measurement of the fair value of an investment property into a financial asset and a non-financial asset is not aligned with the fundamentals of a real estate lease transaction. We do not feel such information would be useful to investors in real estate entities.

(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

Response:
We do not believe this approach is appropriate for real estate transactions and also believe there should only be one model from a lessor perspective.

(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why
not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

Response: We do not feel that it would provide incrementally beneficial information to investors to distinguish real estate lease from real estate sublease transactions.

Question 13: Presentation, Income statement
Do you think that lessees and lessor should present lease income and lease expense separately from other income and expenses in the income statement? Why or Why not?

Response:
For entities where leasing is not the primary business purpose or significant to the overall activities of the business, we do not think that lessees and lessors should present lease income and lease expense separately from other income and expenses in the income statement. A separate line for the amortization of the right-of-use asset and interest expense or income would not provide additional information to the reader of the income statement since the income or expense related to the leases would not be part of the main business purpose of the entity. However, we believe that for lessee entities for which the lease income is the main business purpose, separating lease income and expense from other income statement items would provide additional information to the reader of the financial statements.

If not, do you think that a lessee should disclose that information in the notes instead? Why or Why not?

Response:
For the entities that do not separate lease income and lease expense from other income statement items in the financial statements, we do think that the lessees and lessors should disclose that information in the notes. By providing the information in the notes the readers who would find use for that information would be able to obtain the data from the notes if they are material to the total other income and expense amount.

Question 14: Presentation, Statement of cash flows
Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

Response:
Paragraphs 27 and BC 147 (Lessee)

Response: No. We do not believe that the cash flows from leasing activities should be classified as financing activities. The lease cost should be included in the operating section as we believe that this is an operating cost rather than a financing cost.

Paragraphs 45 and BC 153 (Lessor – Performance Obligation Approach)
**Response:**
Yes. We agree that the lessor should classify cash receipts from lease payments as operating activities in the statement of cash flows.

*Paragraphs 63 and BC 159 (Lessor – Derecognition Approach)*

**Response:**
Yes. We agree that the lessor should classify cash receipts from lease payments as operating activities in the statement of cash flows.

**Questions 15: Disclosure:**
Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

(a) identifies and explains the amounts recognized in the financial statements arising from leases; and
(b) describes how leases may affect the amount, timing and uncertainty of the entity’s future cash flows? (paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

**Response:**
We disagree with the proposed disclosures and believe the current disclosures required by GAAP are generally sufficient for real estate lessors. The proposed disclosures would be burdensome for our industry without adding any significant value for users of our financial statements.

**Questions 16: Transition:**
(a) This proposed guidance would require that lessees and lessors recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?

**Response:**
As indicated previously, we believe investment properties should be scoped out of the proposed accounting, however we agree with the simplified retrospective approach.

(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?

**Response:**
No, full retrospective application of the proposed guidance would be overly burdensome and would not be cost-beneficial.

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?
Response:
No.

Questions 17: Benefits and costs:
Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?

Response:
No. Under the proposed guidance lessees and lessors will incur significant incremental costs to develop or acquire, implement and maintain software that can accommodate the new accounting and reporting requirements. Additional staffing will be necessary to perform the initial and on-going (reassessment) analysis and review of leasing activity to ensure compliance with the requirements of the proposed guidance.

The retrospective accounting requirements for in-place leases will magnify the incremental costs of implementation. The significant incremental costs and staff time associated with a retrospective approach, combined with our view that the resulting proposed guidance is not appropriate for real estate lessors leads to the response above.

Question 18: Other comments:
Do you have any other comments on the proposals?

Response:
Our additional comments have been outlined in the body of the letter preceding this Exhibit.

Questions 19: Non-public entities:
Should any of the proposed guidance be different for non-public entities (private companies and not-for-profit organizations)? If so, which requirement(s) and why?

Response:
No. The proposed guidance should be consistently applied among public and non-public entities, particularly as it relates to leases of real estate.