February 15, 2012

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Via Electronic Mail: director@fasb.org, File Reference No. 2011-210

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

Dear Sir/Madam:

Standard & Poor’s Ratings Services appreciates the opportunity to provide the Financial Accounting Standards Board (the Board), our comments on the Proposed Accounting Standards Update, Real Estate – Investment Property Entities (Topic 973) (Proposed Standard). The views expressed in this letter represent those of Standard & Poor’s Ratings Services and do not address, nor do we intend them to address, the views of any other subsidiary or division of Standard & Poor's Financial Services LLC or of its parent, The McGraw-Hill Companies. We intend our comments to address the analytical needs and expectations of our credit analysts.1

We support the Board’s efforts to address the diversity in accounting practices for investment properties both as it relates to diversity within U.S. GAAP (between entities in different businesses such as real estate investment trusts and pension funds) and internationally between U.S. GAAP and IFRS. Although we agree with the proposed definition of an investment property (i.e., property held for capital appreciation or to generate rental income), we do not support an entity-based approach to determine the accounting. We believe the appropriate accounting should follow the activity, rather than the nature or type of the enterprises that conducts the activity. Accordingly, we recommend that the Board require all entities, irrespective of their “type,” to account for investment property using the same measurement basis.

1 The opinions stated herein are intended to represent Standard & Poor’s Ratings Services’ views on potential changes in accounting and financial reporting standards. Our current ratings criteria are not affected by our comments on the Proposed Standard.
We also support fair value as the mandated measurement basis for investment property, rather than allowing optionality in measuring investment property at fair value or cost. In addition, in our view, an exit strategy should not serve as a threshold criterion to mandate that measurement basis. We generally agree with the disclosures in the Proposed Standard and have made several recommendations for improvements.

Based on our recent experience with IFRS transition in Canada, and previously in Europe and Asia-Pacific, we view fair value accounting for investment property as more relevant. It provides greater transparency in financial statements while enhancing global comparability. For example, loan to value ratios are important considerations in evaluating the financial risk profile of a company, especially real estate investment trusts. In our view, fair value for investment property better depicts the underlying economics and enhances our ability to perform stress scenario analyses, when appropriate. Despite our preference for fair value, the resulting volatility in the income statement is not considered a good indicator of a company’s ability to meet its current and future obligations in our analysis of earnings. Therefore, we may adjust the unrealized gains/losses to better understand the cash-flow generating capacity of a company.

The Standard Scope Should Address Activities, Rather Than “Entity Type”

We believe the scope of the standard should include all investment properties held by any entity. In our view, companies that enter into similar transactions should not use different measurement bases solely on their organizational designation. This would ensure consistent accounting for investment properties across businesses, regardless of the nature of their activities. We further believe the definition and application guidance on an “entity-based approach” provided in the Proposed Standard may lead to inconsistent application by companies holding investment properties, most notably, when evaluating the nature of “substantially all” of the entity’s business activities and its “express business purpose”. In addition, an “entity-based approach” would continue to support industry-specific standards that--we understand--the Board intends to eliminate. We agree with the proposal to require investment property to be measured at fair value, and disagree with optional accounting.

We also agree that the exceptions for entities holding real estate properties for (i) their own use in the production or supply of goods or services or for administrative purposes, and (ii) development for sale in the ordinary course of business upon completion (such as land developers or home builders) are appropriate. In our view, such entities should continue to follow existing accounting standards.

Exit Strategy Should Not Be A Qualification Criterion

We believe the requirement to maintain an “exit strategy” to dispose of the property (express business purpose) should be re-assessed. In our view, companies may hold investment property without a specific or explicit exit strategy, and may take the opportunity to sell the property when market circumstances are favorable or when alternative investment is viewed as more beneficial. Further, companies may also acquire investment properties without an intention to dispose but rather to hold them to generate
rental income. We believe fair value measurements for these investments are relevant to analysis and should be within the scope of the final standard.

**Initial Price Should Exclude Transaction Costs**

We do not favor initially measuring investment properties at transaction price if that price includes capitalized costs such as professional fees, property transfer taxes, and other transaction costs incurred at the onset of the transaction. With subsequent measurement at fair value, the initial transaction costs could result in realizing a greater loss or lower profit in a subsequent period. We believe the fair value of the property itself (i.e., the price paid by buyer to seller) should be the initial measure because that is the price another buyer would pay for the property in an open-market transaction. We suggest transaction costs be expensed as incurred, consistent with guidance on Business Combinations Topic 820.

**Current U.S. GAAP Requirements For Financial Liabilities Should Remain**

We agree with the Board’s proposed requirement to measure financial liabilities (such as debt related to investment property) in accordance with other U.S. GAAP, which currently requires amortized cost measurement unless the fair value option is elected. We are not opposed to elections for fair value measurement that better represent the underlying economics of the company’s business activities. In our view, the accounting treatment of financial liabilities should reflect the fundamental business and economic purpose for transacting those instruments, and provide useful information on the amounts likely to be realized or paid. We believe amortized cost more closely reflects the actual price paid to settle the debt.

**International Consistency Should Be A Priority**

We believe convergence between U.S. GAAP and IFRS should be a priority for the Board in its deliberation regarding the final investment property standards. Accounting and financial reporting differences related to investment properties between U.S. GAAP and IFRS affect the assessment of the resulting key financial metrics that are relevant to our analysis such as leverage and coverage ratios. We have been a strong supporter of global convergence of financial reporting standards, and support the Board’s intention to apply fair value accounting to investment properties. However, we believe the Proposed Standard would result in certain entities that own investment properties and classify them as such under IFRS to be excluded from the Proposed Standard’s scope because of its entity-based approach. For example, any operating or trading company that owns an investment property would fall within the scope of an investment property under IFRS, but not under the Proposed Standard. Further, companies reporting under IFRS in Europe, Australia, and Hong Kong have been applying the asset-based approach for many years. As users of financial statements, we believe this approach would provide the most relevant information for our analysis, and enhance international consistency and comparability. We suggest the Board adopt a similar approach in its final standard.

**Robust Disclosures Are Important To Our Analysis**

We largely agree with the proposed disclosure requirements, and agree with the proposal to include disclosures of amounts recognized in net income for direct operating expenses
separately for investment properties that generated rental revenue and those that did not. We also support disclosures around restrictions affecting the potential cash flows from properties and contractual obligations related to them. However, in our experience, a disclosure scope of "any material" restriction or contractual obligations, as required in the Proposed Standard, may be too broad, because each property could have multiple restrictions and contractual obligations that are not relevant to the measurement of the investment property or are not relevant to our analysis. Examples of such restrictions include limitations on use of property, easements (utility or conservation easements), or restrictions to preserve uniformity of neighborhood, all of which may not necessarily be relevant to users of financial information. Further, contractual obligations could include any obligation on the contract arising on termination of the contract or not paying utility bills on time, changes or enhancements made to the property, resulting in analytical hurdles in obtaining the information relevant to analysis. Therefore, we believe the Board should consider modifying the scope to include disclosure of "any material" restrictions or contractual obligations related to investment property.

To aid analysis of investment properties, we recommend the Board add the following disclosures to its final standard:

- The methods (e.g., capitalization of income, comparable sales, construction costs) and significant assumptions (e.g., capitalization rate, size, location) used to determine a properties' fair value. For a portfolio of properties, we recommend that management's basis for the stratification of properties (e.g., geography, value) be included.
- For properties valued on a third-party valuation, a disclosure when that valuation has not been performed during the period.
- Any significant adjustments to an outside valuation.
- A reconciliation of the carrying amounts of investment properties showing beginning of period value, additions, dispositions, fair value adjustments, net foreign exchange differences, transfers to and from this category (e.g., to or from inventories and owner-occupied property), other meaningful changes, and end of period value.

**Consistency Between Public and Nonpublic Entities**

We believe the Proposed Standard should apply the same guidance to public and nonpublic entities. Separate requirements may exacerbate existing challenges in comparing financial metrics of peer companies and potentially introduce unnecessary complexity into the analysis of peer companies. Because we rate public and private companies globally, we strive to obtain from private companies financial information comparable to that from public companies. We do understand, however, that practical accommodations may be necessary at times for private companies based on a cost benefit approach (e.g., possibly less frequent valuations). Nevertheless, our analysis of public and nonpublic companies would benefit from financial statements based on a single set of accounting standards, regardless of public or nonpublic status.

**Prospective Presentation Is The Practical Option**

Generally, we view full retrospective implementation as most helpful to our analysis. Period-to-period trends are used in our company analysis and therefore full retrospective
implementation best suits such assessments. However, we recognize that some entities likely would encounter extensive operational burdens and costs in implementing the Proposed Standard under a full retrospective transition method. Therefore, we are not opposed to a prospective presentation change for this standard.

We suggest the Board allow early adoption by all issuers. We believe this would more quickly lead to financial statements that reflect more relevant analytical information for use in our financial metrics and statistics.

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We thank you for the opportunity to provide our comments on the Proposed Standard. If you have any questions or require additional information, please contact the undersigned.

Very truly yours,

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