March 15, 2012

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

Re: File Reference No. 2011-210

Dear Ms. Cosper:

We are pleased to comment on the Proposed Accounting Standards Update (ASU), Real Estate—Investment Property Entities (Topic 973), (the “proposed ASU”).

We agree in principle with the proposed ASU and acknowledge the need for additional standardization of accounting and financial reporting concepts for real estate property or properties and entities owning and operating real estate property or properties.

We submit the following comments for your consideration.

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.

We agree that investment property entities should measure their investment property at fair value. Measurement at fair value is an essential component of the business, as it allows investors to transact at market rates.

However, we do not believe that all other entities investing in investment properties should always be required to measure their investment property at fair value. For example, a single property entity that does not meet the criteria to qualify as an investment property entity should not always be required to report the property at fair value. While the information might be useful to the investors, the cost/benefit ratio would likely result in a significant increase in the entity's annual operating costs with little or benefit to the entity or the investors.

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.

We believe that investment property entities should be required to measure their investment properties at fair value, rather than provided an option to measure at fair value or cost.
IAS 40 does provide for the reporting on either a fair value or a cost basis. Even if the reporting entity chooses to use the cost basis, IAS 40 requires the disclosure of the fair value and the basis for determining the fair value. If an option is provided in the final ASU, it should be based on the IAS 40 model.

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?

We believe the proposed requirement to reassess is appropriate if there is a change in the purpose and design of the entity.

We do have concerns about how reporting of prior period financial statements would be effected by this and how it could impact the comparability of financial information reported. Accordingly, we believe that the FASB should include additional guidance covering the reporting of any change in the status of the entity or property.

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 believe that investments in mortgages receivable and mortgage-backed securities should not be excluded in determining whether substantially all of an entity’s business activities are investing in real estate property or properties if they are owned directly by the entity. In addition, investments in corporate stocks of widely held publicly traded entities that invest in real estate property or properties either directly or through other entities (such as ownership of REIT shares) should be included as allowable assets in the consideration of the business activities criterion.

Real estate investment entities often pursue different types of investments to accommodate different risk profiles of their investors. We do not believe that investing in certain types of these investments should result in an entity not qualifying as an investment property entity. We believe the proposed accounting could result in situations in which information related to these investments presented by different entities would not be comparable.

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.

We are concerned that the requirement to have an exit strategy might be used by an entity that would otherwise qualify as an investment property entity to avoid being considered an investment property entity. We believe that the requirement to hold the investment for total return including an objective to realize capital appreciation is sufficient as it would require the entity to plan for the disposal of its properties and consider the timing of such disposal.

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?
We agree that an investment property entity should consolidate controlling interests in other investment property entities, investment companies, and operating entities that provide services to the investment property entities in accordance with Topic 810.

We believe that an investment property entity should consolidate controlling interests in investees that are not one of the types of entities discussed in the previous paragraph. We note, however, that the “nature of the business activities” criterion, which requires that “substantially all of the business entity’s business activities are in a real estate property or properties,” would mean that any investment company investee in which the investment property entity holds a controlling financial interest could not (by definition) be significant to the investment property entity.

**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?

We believe this basis of recognizing rental revenue for investment properties measured at fair value is appropriate.

**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 believe that it is difficult to address this question while the Leases project is still ongoing. Certain recent tentative decisions that the Board has made in that project potentially impact this proposed ASU. These tentative decisions, combined with other issues that could potentially be identified during deliberations on that project, could have a significant impact on this proposed ASU, perhaps to the extent of eliminating the need for this project.

**Other Comments**

- We recommend that the final standard include an explicit statement that it does not apply to low-income housing properties, properties subject to HUD reporting, and the like. We believe that these properties would be excluded through application of the proposed criteria (most notably the exit strategy requirement of the express-business-purpose criterion), but believe that an explicit statement would avoid any potential confusion.

- An investment property entity will be required to present in the statement of financial position the fair value of the investment properties held (exclusive of any debt associated with the investment properties) and any debt (ref. 973-210-45-1). If a reporting entity that is an investment property entity, either owns its investment property directly or consolidates its investment property, is it only the “investment property” itself that is reported at fair value or should the related mortgage indebtedness also be carried at fair value? The FASB should consider providing guidance to clarify this issue.

- Guidance should be provided so financial statements of investment property entities with both investment properties and noninvestment properties will be comparable and more easily understandable by the reader/user. If substantially all of an entity’s business activities are investing in real estate property or properties and the entity is required to measure its investment property at fair value after initial recognition (ref. 973-360-35-1), the remainder of the entity’s assets (including any other real estate assets) and liabilities should also be valued in the same manor (i.e., transaction price for initial measurement and fair value thereafter). Additionally, although investments in mortgages receivable and mortgage-backed securities are to be excluded in determining whether substantially all of an entity’s business activities are investing in real estate property or properties (ref. 973-10-56-5), if these investments are owned directly by the entity, they should also be reported at fair value.
We would be pleased to respond to any questions the Board or staff may have about the foregoing. Please direct any questions to Rick Day at (563) 888-4017 or Rich Stuart at (203)-905-5027.

Sincerely,

McGladrey & Pullen, LLP

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