FINANCIAL ACCOUNTING SERIES

EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: October 21, 2011
Comments Due: January 5, 2012

Real Estate—Investment Property Entities (Topic 973)

This Exposure Draft of a proposed Accounting Standards Update of Topic 973 is issued by the Board for public comment. Comments can be provided through an electronic feedback form accessible from the Investment Properties project page of the FASB website. Written comments can also be provided and should be addressed to:

Technical Director
File Reference No. 2011-210

Financial Accounting Standards Board
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites individuals and organizations to send comments on all matters in this Exposure Draft of a proposed Accounting Standards Update. Responses from those wishing to comment on the Exposure Draft must be received by January 5, 2012. Interested parties can submit comments through an electronic feedback form or in the form of a written letter. The electronic feedback form can be accessed through the Investment Properties project page on the FASB's website at www.fasb.org (see Projects tab/Technical Plan and Project Updates page). Comments in the form of a written letter should be submitted by email to director@fasb.org, File Reference No. 2011-210. Those without email should send their written comments to "Technical Director, File Reference No. 2011-210, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116." Do not send responses by fax.

All comments received constitute part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB's website.

Financial Accounting Standards Board
of the Financial Accounting Foundation
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Proposed Accounting Standards Update

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Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

In 2009, the Emerging Issues Task Force (EITF) began to address the diversity in practice related to entities that invest in real estate (real estate investment trusts and real estate investment funds). Specifically, the EITF intended to help industry practitioners understand when real estate entities should apply the requirements in Topic 946, Financial Services—Investment Companies*.* Some real estate entities currently measure their real estate investments at fair value because (1) they have determined that they are investment companies in accordance with Topic 946, (2) they are controlled by pension plans that are required to measure their investments at fair value, or (3) the development of industry accounting practices allows them to measure real estate investments at fair value without regard to investment company attributes or pension plan ownership.

IAS 40, *Investment Property,* provides entities with an option to measure real estate properties acquired for investment purposes (that is, investment properties) at fair value or cost. Unlike International Financial Reporting Standards (IFRS), U.S. generally accepted accounting principles (GAAP) does not contain specific accounting requirements for investment properties. As a result, other than in the situations described in the preceding paragraph, investment properties are accounted for similarly to property, plant, and equipment under U.S. GAAP.

As part of the FASB's and the International Accounting Standard Board's (IASB) joint project on accounting for leases, the IASB decided that a lessor of an investment property would not be required to apply the proposed lessor accounting requirements in the IASB's August 2010 Exposure Draft, *Leases,* if the lessor measures its investment properties at fair value by electing the fair value model under IAS 40. Instead, a lessor that elects the fair value model would account for lease rental income from investment properties on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished. That would result in significant differences in the scope of entities applying the proposed lessor accounting model under U.S. GAAP and IFRS.

To align the scope of entities that would apply the proposed lessor accounting model under U.S. GAAP and IFRS and to address the diversity in practice about the accounting by real estate entities, the FASB added a project to its agenda to determine whether to permit or require investment properties to be carried at fair value. As a result, the EITF indefinitely deferred its discussions on the issue pending the Board's deliberations on the investment properties project.

Who Would Be Affected by the Amendments in This Proposed Update?

A detailed analysis is required to determine whether an entity is within the scope of the amendments in this proposed Update. An entity in which substantially all of its business activities are investing in a real estate property or properties for total return, including an objective to realize capital appreciation (for example, certain real estate investment trusts and real estate funds) would be affected by the proposed amendments. The proposed amendments would not apply to an entity whose express business purpose is holding real estate properties for:

1. Its own use in the production or supply of goods or services or for administrative purposes
2. Development for sale in the ordinary course of business upon completion (such as land developers or home builders).

An entity that invests in a real estate property or properties but does not meet the proposed criteria to be an investment property entity may be within the scope of the proposed Accounting Standards Update, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements.* The Board recommends that stakeholders review the amendments in this proposed Update on investment properties concurrently with the amendments in the proposed Update on investment companies.

What Are the Main Provisions?

The amendments in this proposed Update would provide accounting guidance for an entity that meets the criteria to be an investment property entity. The proposed amendments also would introduce additional presentation and disclosure requirements for an investment property entity.

The proposed amendments would be incremental guidance for investment property entities. In addition to the proposed amendments, an investment property entity would be required to follow applicable guidance in other Topics. For example, an investment property entity would follow guidance in the Presentation Area of the Codification for financial reporting and follow disclosure requirements in all other relevant Topics.

Real Estate Properties

Investment properties acquired by an investment property entity would initially be measured at transaction price, including transaction costs, and subsequently measured at fair value with all changes in fair value recognized in net income. Real estate properties other than investment properties would be measured in accordance with other relevant U.S. GAAP.

Controlling Financial Interests

The proposed amendments would require an investment property entity to account for a controlling financial interest in the following entities in accordance with Topic 810, Consolidation:

1. Another investment property entity
2. An investment company as defined in Topic 946
3. An operating entity that provides services to the investment property entity.

An investment property entity would measure a controlling financial interest in any other entity at fair value with all changes in fair value recognized in net income. The investment property entity would retain the specialized guidance when consolidating another investment property entity or an investment company.

Equity Method Investments

The proposed amendments would require an investment property entity to account for an investment in an operating company that provides services to the investment property entity in accordance with Topic 323, Investments—Equity Method and Joint Ventures, if the investment property entity can exercise significant influence over the operating company. An investment property entity would measure all other investments that would otherwise qualify for the equity method of accounting (including investments in another investment property entity or an investment company) at fair value with all changes in fair value recognized in net income.

Other Financial Interests

Investments in entities in which the investment property entity does not have a controlling financial interest or cannot exercise significant influence would be measured in accordance with other relevant U.S. GAAP. For example, an investment property entity would account for a debt security issued by another investment property entity in accordance with Topic 320, Investments—Debt and Equity Securities.

How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

Currently, an entity that invests in real estate properties but is not an investment company under Topic 946 is required under Topic 360, Property, Plant, and Equipment, to measure its real estate properties at cost. Some of those entities currently measure their real estate properties at fair value because they are controlled by pension plans that are required to measure their investments at fair value or because the development of industry accounting practices allows them to measure real estate investments at fair value.

The proposed amendments would require all entities that meet the criteria to be investment property entities to follow the proposed guidance, therefore, requiring consistent application of U.S. GAAP across all real estate entities that have similar business operations.

An entity that meets all of the following criteria would be an investment property entity under the proposed amendments:

1. *Nature of the business activities.* Substantially all of the entity's business activities are investing in a real estate property or properties.
2. *Express business purpose.* The express business purpose of the entity is to invest in a real estate property or properties for total return including an objective to realize capital appreciation, for example, through disposal of its real estate property or properties. Real estate properties held by an entity for either of the following purposes do 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.
3. *Unit ownership.* Ownership in the entity is represented by units of investments, in the form of equity or partnership interests, to which a portion of the net assets are attributed.
4. *Pooling of funds.* The funds of the entity's investors are pooled to avail the investors of professional investment management. The entity has investors that are not related to the parent (if there is a parent) and those investors, in aggregate, hold a significant ownership interest in the entity.
5. *Reporting entity.* The entity provides financial results about its investing activities to its investors. The entity can be but does not need to be a legal entity.

Notwithstanding the criteria noted above, a subsidiary entity whose parent entity is required to account for its investments at fair value in accordance with U.S. GAAP or whose parent entity is a not-for-profit entity under Topic 958, Not-for-Profit Entities, that measures its investments at fair value is not subject to the unit-ownership and pooling-of-funds criteria.

When Would the Amendments Be Effective?

The effective date will be determined after the Board considers the feedback on the amendments in this proposed Update. The Board plans to consider the effective dates for the amendments in the proposed Update on investment companies and the proposed Accounting Standards Update, *Leases (Topic 840),* when determining the effective date for the amendments in this proposed Update.

The proposed amendments would be effective for interim and annual reporting periods in fiscal years that begin on or after the effective date. Early adoption would be prohibited.

If an entity is an investment property entity as a result of the proposed amendments, it would report the effect of applying the amendments in this proposed Update as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position before initial application and the amounts recognized in the statement of financial position immediately after initial application.

How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

IAS 40 provides an entity with an option to measure all of its investment properties at either fair value or cost. If an entity makes a policy election to measure all of its investment properties at fair value, the entity would evaluate each of its properties to determine if each property qualifies as an investment property. Once all investment properties held by the entity are identified, the entity is required to measure all of its investment properties at fair value.

On the other hand, the proposed amendments would require an entity to determine whether it meets the criteria to be an investment property entity. All investment properties held by the entity would be measured at fair value. Accordingly, rather than allowing any entity that holds investment properties to elect to measure all of its investment properties at fair value, the proposed amendments would require an entity that meets the criteria to be an investment property entity to measure its investment properties at fair value.

Because of concerns that providing an option would reduce comparability between entities with similar economic circumstances, the Board decided that rather than providing an option to all entities, entities that meet certain criteria should be required to measure their investment properties at fair value. That approach would result in comparable financial reporting for entities in which substantially all of their business activities are investing in investment properties. It also would not be burdensome for entities that may hold investment properties but in which substantially all of their business activities are not investing in a real estate property or properties. In addition, the Board believes that the entities that would be investment property entities by applying the amendments in this proposed Update are generally the types of entities that currently elect the fair value model under IAS 40.

Other accounting differences and similarities between the proposed guidance and IFRS are highlighted in the Basis for Conclusions in this proposed Update.

Questions for Respondents

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.

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.

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.

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?

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?

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.

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.

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?

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.

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.

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?

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?

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?

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?

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?

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?

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?

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?

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?

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.

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?

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?

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

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

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?

Amendments to the *FASB Accounting Standards Codification*®

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Codification Subtopics/Paragraphs	Action	Description of Changes
Subtopic 973-10	Added	The proposed amendments would provide guidance for an entity to determine whether it is an investment property entity.
Subtopics 973-210,973-225, 973-323, 973-360, 973-605, 973-805, and 973-810	Added	The proposed amendments would provide accounting guidance for an investment property entity.
323-10-15-4	Conforming Amendments	The substance of the guidance in this Topic would not be changed by the proposed amendments.
805-20-30-5	Conforming Amendments	The substance of the guidance in this Topic would not be changed by the proposed amendments.
810-10-15-10 and 15-12	Conforming Amendments	The substance of the guidance in this Topic would not be changed by the proposed amendments.
820-10-15-4 and 820-10-35-59 through 35-60	Conforming Amendments	The substance of the guidance in this Topic would not be changed by the proposed amendments.
970-10-05-1	Conforming Amendments	The substance of the guidance in this Topic would not be changed by the proposed amendments.

Codification Subtopics/Paragraphs	Action	Description of Changes
972-10-05-1	Conforming Amendments	The substance of the guidance in this Topic would not be changed by the proposed amendments.
974-10-05-1	Conforming Amendments	The substance of the guidance in this Topic would not be changed by the proposed amendments.
976-10-05-1	Conforming Amendments	The substance of the guidance in this Topic would not be changed by the proposed amendments.
978-10-05-1	Conforming Amendments	The substance of the guidance in this Topic would not be changed by the proposed amendments.

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–24. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~. The newly added Subtopics and Master Glossary terms are not underlined to enhance readability.

Amendments to the Master Glossary

3. Add the following new terms to the Master Glossary and relevant Subtopics within Topic 973, with a link to transition paragraph 973-10-65-1, as follows:

Investment Property

Real estate property, including any **property improvements or integral equipment**, held by an investment property entity (within the scope of Topic 973) for investing purposes rather than for either of the following purposes:

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.

Right-of-Use Asset

An asset that represents the lessee's right to use the underlying asset for the lease term.

4. Add the following Master Glossary terms to Subtopic 973-10 as follows:

Affiliate

A party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
b. Operating purposes other than to provide goods or services at a profit
c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities
b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Parent

An entity that has a controlling financial interest in one or more subsidiaries. (Also, an entity that is the primary beneficiary of a variable interest entity.)

Related Parties

Related parties include:

a. Affiliates of the entity
b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity
c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
d. Principal owners of the entity and members of their immediate families
e. Management of the entity and members of their immediate families
f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other

to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests

g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

5. Add the following Master Glossary term to Subtopic 973-360 as follows:

Property Improvements or Integral Equipment

Any physical structure or equipment attached to the real estate, or other parts thereof, that cannot be removed and used separately without incurring significant cost. Examples include an office building, a manufacturing facility, a power plant, and a refinery.

Addition of Subtopic 973-10

6. Add Subtopic 973-10. All paragraphs in this new Subtopic are linked to transition paragraph 973-10-65-1.

Real Estate—Investment Property Entities—Overall

Overview and Background

973-10-05-1 The Codification contains several Topics for real estate due to the differing accounting treatment for various real estate subindustries. The Topics include:

a. Real Estate—General
b. Real Estate—Common Interest Realty Associations
c. Real Estate—Investment Property Entities
d. Real Estate—Real Estate Investment Trusts
e. Real Estate—Retail Land
f. Real Estate—Time-Sharing Activities.

973-10-05-2 This Topic includes the following Subtopics:

a. Overall
b. Balance Sheet
c. Income Statement
d. Investments—Equity Method and Joint Ventures
e. Property, Plant, and Equipment
f. Revenue Recognition

g. Business Combinations
h. Consolidation.

Scope and Scope Exceptions

> Overall Guidance

973-10-15-1 The Subtopics within the Real Estate—Investment Property Entities Topic only provide incremental industry-specific guidance for the entities defined in this Scope Section, or as further defined in the Scope Sections of the individual Real Estate—Investment Property Entities Subtopics. Entities within the scope of this Topic also shall comply with the applicable guidance not included in this Topic.

> Entities

973-10-15-2 The accounting principles discussed in this Topic apply to all investment property entities. An entity is required to consider its purpose and design when determining whether it is an investment property entity. An investment property entity as discussed in this Topic is an entity that meets all of the following criteria:

a. Nature of the business activities. Substantially all of the entity's business activities are investing in a real estate property or properties.
b. Express business purpose. The express business purpose of the entity is to invest in a real estate property or properties for total return including an objective to realize capital appreciation, for example, through disposal of its real estate property or properties. Real estate properties held by an entity for either of the following purposes do not meet this criterion:
    1. The entity's own use in the production or supply of goods or services or for administrative purposes
    2. Development for sale in the ordinary course of business upon completion.
c. Unit ownership. Ownership in the entity is represented by units of investments, in the form of equity or partnership interests, to which a portion of the net assets are attributed.
d. Pooling of funds. The funds of the entity's investors are pooled to avail the investors of professional investment management. The entity has investors that are not related to the **parent** (if there is a parent) and those investors, in aggregate, hold a significant ownership interest in the entity.
e. Reporting entity. The entity provides financial results about its investing activities to its investors. The entity can be but does not need to be a legal entity.

The implementation guidance in Section 973-10-55 is an integral part of evaluating whether an entity meets each criterion above to be an investment property entity.

973-10-15-3 Notwithstanding the criteria noted in the preceding paragraph, a subsidiary entity that does not meet the criteria in paragraph 973-10-15-2(c) through (d) may still be within the scope of this Topic provided the subsidiary entity has a parent entity that is required to account for its investments at fair value in accordance with this Topic or another Topic or has a parent entity that is a **not-for-profit entity** under Topic 958 that measures its investments at fair value.

> Reassessment

973-10-15-4 The initial determination of whether an entity is an investment property entity within the scope of this Topic shall be made upon formation of the entity. The entity shall reassess whether it meets (or does not meet) the criteria of an investment property entity in this Topic only if there is a subsequent change in the purpose and design of the entity.

973-10-15-5 An entity that no longer meets the criteria to be an investment property entity under this Topic shall discontinue applying the guidance in this Topic and shall account for the change in its status prospectively by accounting for its investments in conformity with other Topics as of the date of the change in status. **Investment properties** that are subject to a lease agreement shall prospectively be accounted for in accordance with Topic 840 as though the commencement date of the lease is the date of the change in status. The fair value of the investment properties at the date of the change in status (as opposed to the reporting date) shall be the initial carrying amount.

973-10-15-6 An entity that subsequently meets the criteria to be an investment property entity under this Topic shall account for the effect of the change in status from the date of the change in status. The effect of applying this Topic shall be recognized as a cumulative-effect adjustment to retained earnings at the date of the change in status. The amount recognized in retained earnings represents the difference between the fair value of the entity's investment properties and the carrying amounts of the investment properties at the date of the change in status.

Disclosure

973-10-50-1 An entity with a change in status (see paragraphs 973-10-15-4 through 15-6) shall disclose the fact that a change in status occurred and the reasons for that change.

973-10-50-2 An entity that previously was not an investment property entity under this Topic and becomes an investment property entity under this Topic shall disclose the effect of the change in status on the reported amounts of **investment properties** as of the date of the change in status.

Implementation Guidance and Illustrations

> Implementation Guidance

> > Criteria to Be an Investment Property Entity

973-10-55-1 This Section provides guidance on evaluating each criterion necessary to be an investment property entity and is organized as follows:

a. Nature of the business activities
b. Express business purpose
c. Unit ownership
d. Pooling of funds
e. Reporting entity.

> > > Nature of the Business Activities

973-10-55-2 Substantially all of the entity's business activities should be investing in a real estate property or properties. The entity should not hold significant assets or liabilities other than those relating to its investment(s) in real estate property or properties, except those described in the following paragraph.

973-10-55-3 If an entity provides (or holds an investment in an entity that provides) services that relate only to the investment property entity's own investment activities (for example, property management services), even if those activities are significant, the entity can still meet the nature-of-the-business-activities criterion in paragraph 973-10-15-2(a) to be an investment property entity.

973-10-55-4 An investment property entity is required to hold a real estate property or properties directly or indirectly through a controlling financial interest in an entity that meets the nature-of-the-business-activities and express-business-purpose criteria in paragraph 973-10-15-2(a) through (b). For example, an entity could be an investment property entity if its assets are real estate properties held through a subsidiary in which substantially all of the subsidiary's business activities and express business purpose are investing in real estate properties for total return. See paragraphs 973-10-55-23 through 55-32 for Examples.

973-10-55-5 An investment property entity is not precluded from holding investments in other assets (whether or not they are real estate related), such as property, plant, equipment, loans, securities, short positions, and derivatives, provided that those investments are not significant to the entity. Investments in mortgage receivables and mortgage-backed securities are not considered investments in real estate properties for this analysis.

973-10-55-6 Although substantially all of an investment property entity's business activities must be investing in a real estate property or properties, an investment property entity is not required to hold a real estate property at all times throughout its existence. Provided the entity meets the other criteria in paragraph 973-10-15-2 to be an investment property entity, it is not precluded from being an investment property entity in each of the following situations:

a. The entity's initial offering period has not expired.
b. The entity has not yet identified suitable investment(s) and, therefore, has not yet fully executed its plan to acquire a real estate property or properties.
c. The entity is in the process of liquidation.

973-10-55-7 An investment property entity may temporarily increase its investments in assets other than **investment properties**. Holding those assets temporarily does not affect the status of the entity as an investment property entity, even if those holdings are significant in relation to the entity's total assets, provided the assets are held on a temporary basis and the entity has not changed its business purpose and design. When assessing if the entity temporarily holds assets other than investment properties, the entity should consider all facts and circumstances, including the following:

a. The entity's general policies and past business practices regarding holding the assets that are not investment properties
b. The entity's strategies about the sale of the assets that are not investment properties including the time frame for sale
c. The time that is reasonably expected for selling similar assets in current market conditions.

> > > Express Business Purpose

973-10-55-8 To be an investment property entity, the entity is required to have made a commitment to a group of investors or potential investors that the purpose of the entity is to invest in a real estate property or properties to maximize total return, including an objective to realize capital appreciation. Real estate properties held by an entity for the following purposes do 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).

973-10-55-9 An entity may meet the express-business-purpose criterion indirectly through a controlling financial interest if the subsidiary meets the nature-of-the-business-activities and express-business-purpose criteria in paragraph 973-10-15-2(a) through (b) (see paragraphs 973-10-55-23 through 55-32).

973-10-55-10 Evidence of the entity's express business purpose may be included in the entity's offering memorandum, publications distributed by the entity, and other corporate or partnership documents that indicate the investment objectives of the entity. Evidence of the entity's express business purpose also may include the manner in which the entity presents itself to other parties (such as potential investors or potential investees). For example, an entity that presents its business to its investors as having the objective of investing in a real estate property or properties for capital appreciation has an express business purpose that is consistent with the express business purpose of an investment property entity. Alternatively, an entity that presents itself as being in the business of developing real estate properties for sale upon completion (such as a land developer or home builder) has an express business purpose that is inconsistent with the business purpose of an investment property entity.

973-10-55-11 An entity's express business purpose also is evidenced through its investment plans. Accordingly, an investment property entity should have an exit strategy to dispose of its property or properties to realize capital appreciation to maximize total returns. Although the investment property entity may not yet have determined the specific method or timing of disposing its investment properties, the fact that the entity has developed strategies through which it would realize appreciation to maximize total returns provides evidence that its business purpose is consistent with the express business purpose of an investment property entity. Disposal of real estate properties only during liquidation or to satisfy investor redemptions are not exit strategies. Therefore, an entity should have a plan to dispose of its property or properties before liquidation to realize capital appreciation.

973-10-55-12 An entity would not meet the express-business-purpose criterion if the entity or its **affiliates** obtain or have the objective of obtaining returns from its investments other than total return, including capital appreciation in entities other than an investment property entity. Examples of relationships and activities between (1) the entity or its affiliates and (2) an investee or its affiliates (other than an investment property entity) that demonstrate that an entity is investing for other than total return, including capital appreciation, include the following:

a. The entity or its affiliates acquire, use, exchange, or exploit processes, intangible assets, or technology of the investee or its affiliates.
b. There are other arrangements to jointly develop, produce, market, or provide products or services.
c. There are transactions that meet any of the following conditions:
    1. They are on terms that are unavailable to entities that are not affiliates of the investee.
    2. They are not at fair value at the measurement date or are not conducted at arm's length.

    3. They represent a significant portion of the investee's or the entity's business activity, including business activities of affiliates of the entity or affiliates of the investee.

d. The entity or its affiliates have disproportionate rights, or exclusive rights, to purchase or otherwise acquire assets, technology, products, or services of an investee or its affiliates (for example, an affiliate of the entity holds an option to purchase an asset from an investee of the entity if the asset's development is deemed successful).
e. An affiliate of the entity holds an option to purchase ownership interests in the entity's investees from the entity at an amount other than fair value.

> > > Unit Ownership

973-10-55-13 To be an investment property entity, investors are required to acquire ownership units, in the form of equity or partnership interests, in the entity. Each unit of ownership represents a specifically identifiable portion of the net assets of the investment property entity, although each unit does not have to represent a proportionate interest in all of the underlying investments of the investment property entity.

973-10-55-14 Having multiple classes of equity instruments, such as shares with distinct rights, does not preclude an entity from being an investment property entity.

> > > Pooling of Funds

973-10-55-15 An investment property entity sells its ownership interests to investors and invests the proceeds to achieve its investment objectives. To be an investment property entity, the entity must have investors that are not **related parties** of the entity's **parent** (if there is a parent) and those investors, in aggregate, must hold a significant ownership interest in the entity. Investors that are related to the parent should be combined and treated as a single investor, along with the parent, for purposes of applying this criterion. An entity is not precluded from meeting the pooling-of-funds criterion in each of the following situations:

a. The entity's initial offering period has not expired, and the entity is actively identifying suitable investors.
b. The entity is actively identifying suitable investors to replace those that have redeemed their ownership interest.
c. The entity is in the process of liquidation.

973-10-55-16 If the parent (or its related parties) has an implicit or explicit arrangement to acquire another investor's ownership interests in the entity at an amount other than fair value, those investments should be combined and treated as if they were owned by the parent for purposes of evaluating this criterion.

Examples of when investments should be combined and treated as if they are owned by the parent include both of the following:

a. The parent, or its related parties, writes a put option to acquire another investor's ownership interests in the entity.
b. The parent finances another investor's ownership interests, and the ownership interests are collateral for the debt.

> > > Reporting Entity

973-10-55-17 An entity can be but does not need to be a legal entity to be an investment property entity. The economic substance of the entity, rather than its legal form, should be evaluated to determine whether the entity is a reporting entity that provides investors with periodic financial results about its investment properties.

> Illustrations

973-10-55-18 The following Examples illustrate the scope and application of this Topic:

a. Example 1: Temporary investments in assets other than investment properties
b. Example 2: Indirect investments in real estate properties
c. Example 3: Investments in real estate properties and securities
d. Example 4: Express business purpose—holding properties for development to sell in the ordinary course of business upon completion
e. Example 5: Express business purpose—holding properties for use by an affiliate
f. Example 6: Express business purpose—holding properties for rental income purposes
g. Example 7: Parent entity that accounts for its investments at fair value.

> > Example 1: Temporary Investments in Assets Other Than Investment Properties

973-10-55-19 Entity A is a partnership organized to provide returns to its multiple unrelated investors. Substantially all of Entity A's business activities are investing in real estate properties and leasing those properties to commercial tenants with a plan to dispose of those properties to maximize total returns. Entity A reports its financial results to its investors on a quarterly and annual basis. Entity A occasionally publishes marketing materials that describe its business strategy to potential investors as investing in real estate properties for rental income and capital appreciation.

973-10-55-20 During its most recent fiscal year, Entity A purchases publicly traded corporate bonds with capital previously earmarked for real estate property acquisitions. Entity A plans to sell the bonds in the public market and acquire real estate properties with the proceeds when it identifies appropriate real estate property investments. During that period, Entity A continues to market itself to investors as an entity engaged in investing in real estate properties. Entity A does not have a history of holding significant investments in assets other than investment properties. Historically, Entity A has qualified as an investment property entity.

973-10-55-21 Entity A determines that its investments in corporate bonds, even though significant, are temporary and do not disqualify it from being an investment property entity. Entity A’s long-term business purpose and business activities do not change during the period that it holds the corporate bonds. Also, Entity A plans to dispose of its temporary investments and does not have a history of holding assets other than investment properties. Therefore, the purpose and design of Entity A did not change during the most recent fiscal year.

973-10-55-22 Substantially all of Entity A’s business activities are investing in real estate properties with an express business purpose of total return, including an objective of realizing capital appreciation. Entity A has multiple partners (none of which are Entity A’s parent) to whom it reports its financial results. Therefore, Entity A meets all five criteria in paragraph 973-10-15-2 and is an investment property entity.

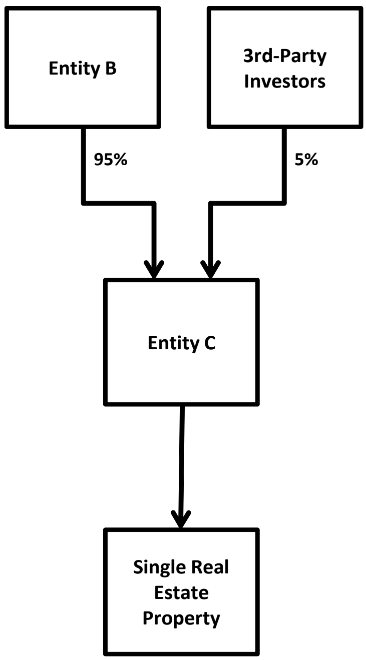
> > Example 2: Indirect Investments in Real Estate Properties

973-10-55-23 Examples 2A and 2B illustrate an entity’s evaluation of whether its investment in another entity enables it to be an investment property entity.

> > > Example 2A: 95 Percent Ownership of an Entity with a Single Real Estate Property Investment

973-10-55-24 Entity B is a public corporation that does not directly hold any real estate properties. Rather, it holds a 95 percent interest in Entity C, a partnership that invests directly in a single real estate property (and its related debt) for total return including an objective to realize capital appreciation. The remaining 5 percent interest in Entity C is held by individuals not related to Entity B. Entity C provides annual financial statements to its investors. In its marketing materials, Entity B describes its business purpose to investors as investing in real estate properties to seek total return from current income and capital appreciation. Entity B’s investment in Entity C is a controlling financial interest in accordance with Topic 810.

973-10-55-25 This diagram illustrates that structure.



973-10-55-26 Although Entity B does not directly own real estate properties, to determine whether Entity B is an investment property entity, Entity B must evaluate its controlling financial interest in Entity C. In accordance with paragraphs 973-10-55-4 and 973-10-55-9, Entity B must evaluate Entity C's business activities and express business purpose to determine whether Entity B is an investment property entity. Entity B would consider its indirect ownership interest in the real estate property if Entity C meets the nature-of-the-business activities and express-business-purpose criteria in paragraph 973-10-15-2(a) through (b). Entity C is not required to meet the other three criteria in paragraph 973-10-15-2 for purposes of evaluating whether Entity B is an investment property entity.

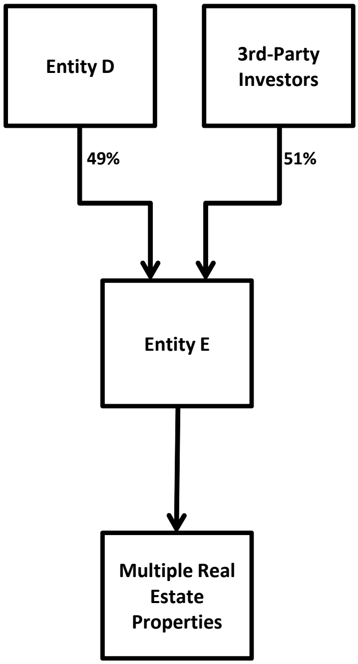
973-10-55-27 Entity C's business activities and express business purpose are consistent with the criteria in paragraph 973-10-15-2(a) through (b) because substantially all of Entity C's business activities are investing directly in a real estate property with an express business purpose to invest in the real estate property for total return including an objective to realize capital appreciation. Because Entity B's only investment is its interest in Entity C, Entity B's business activities and business purpose are consistent with those of an investment property entity (that is, to invest in real estate properties for total return including an objective for capital appreciation) through its interest in Entity C. Entity B also meets the unit-ownership, pooling-of-funds, and reporting-entity criteria in paragraph 973-10-15-2(c) through (e) because ownership of Entity B is divided among its multiple unrelated investors (none of which are Entity B's parent) to whom it reports its financial results. Because Entity B meets all five criteria in paragraph 973-10-15-2, Entity B is an investment property entity.

973-10-55-28 When analyzing whether Entity C, on a standalone basis, is an investment property entity, Entity C is required to meet all five criteria in paragraph 973-10-15-2. As discussed in the preceding paragraph, Entity C's business activities and express business purpose meet those criteria of an investment property entity. Entity C does not meet the pooling-of-funds criterion in paragraph 973-10-15-2(d) because the investors not related to the parent entity do not, in aggregate, hold a significant ownership interest in Entity C. However, because Entity C's parent entity (Entity B) is an investment property entity that is required to measure its investments at fair value, Entity C is exempt from the pooling-of-funds criterion in paragraph 973-10-15-2(d). In addition, Entity C meets the unit-ownership criterion and is considered a reporting entity because it provides financial results to its investors. Therefore, Entity C is an investment property entity.

> > > Example 2B: 49 Percent Ownership of an Investment Property Entity

973-10-55-29 Entity D is a public corporation that does not directly hold any real estate properties. Rather, it holds a 49 percent interest in Entity E, a partnership that invests directly in real estate properties for total return, including an objective to realize capital appreciation. Entity E's remaining 51 percent interest is held by multiple unrelated individuals and entities. Entity E provides annual financial statements to its investors. In its marketing materials, Entity D describes its business purpose to investors as investing in real estate properties to seek total return from current income and capital appreciation. Entity D's investment in Entity E does not qualify as a controlling financial interest in accordance with Topic 810.

973-10-55-30 This diagram illustrates that structure.



973-10-55-31 Entity D is not an investment property entity because it does not hold real estate properties directly or indirectly through a controlling financial interest. When evaluating whether an entity is an investment property entity, paragraph 973-10-55-4 requires an entity to consider investments in real estate properties held indirectly through another entity only if the investment is a controlling financial interest. Entity D should evaluate whether it is an investment company under Topic 946.

973-10-55-32 When analyzing whether Entity E, on a standalone basis, is an investment property entity, Entity E is required to meet all five criteria in paragraph 973-10-15-2. The nature of Entity E's business activities and its express business purpose are consistent with the criteria in paragraph 973-10-15-2(a) through (b) because substantially all of Entity E's business activities are investing directly in real estate properties with an express business purpose of investing in real estate properties for total return including an objective to realize capital appreciation. Entity E also meets the unit-ownership, pooling-of-funds, and reporting-entity criteria in paragraph 973-10-15-2(c) through (e) because Entity E has multiple unrelated investors (no parent entity) to whom it reports its financial results. Therefore, Entity E meets all five criteria in paragraph 973-10-15-2 and is an investment property entity.

> > Example 3: Investments in Real Estate Properties and Securities

973-10-55-33 Entity F is an entity with multiple unrelated investors. Entity F's offering documents describe its business as investing in the real estate industry for capital appreciation. Entity F's investment portfolio is frequently balanced with half of its total assets in mortgage-backed securities and half of its total assets in real estate properties.

973-10-55-34 Entity F is not an investment property entity because not substantially all of Entity F's business activities are investing in real estate properties. Although the securities relate to the real estate industry, they are not investments in real estate properties. Entity F should evaluate whether it is an investment company under Topic 946.

> > Example 4: Express Business Purpose—Holding Properties for Development to Sell in the Ordinary Course of Business upon Completion

973-10-55-35 Entity G's business activities include purchasing land, constructing commercial buildings on the land, and selling the improved properties. Entity G presents itself to potential investors as being uniquely capable of creating value through efficient design, planning, and execution of high-quality construction projects.

973-10-55-36 Entity G does not meet the express-business-purpose criterion in paragraph 973-10-15-2(b) because its business purpose is not to invest in real estate properties for total return but, rather, to buy, develop, and sell properties in the ordinary course of business upon completion.

> > Example 5: Express Business Purpose—Holding Properties for Use by an Affiliate

973-10-55-37 Entity H is a manufacturing corporation that is 90 percent owned by the founder. The remaining 10 percent is owned by four employees of Entity H. After several years of operations, the business outgrew its manufacturing facility that it was renting from a third-party lessor, and Entity H decided to purchase a larger manufacturing facility. Rather than Entity H directly purchasing a building, the founder organizes a separate entity, Entity I, to acquire the building for legal and tax reasons and funds 20 percent of the building's purchase. The remainder of the building's purchase is financed through a loan from a bank. Entity I leases the building to Entity H for use as Entity H's manufacturing facility. The bank requires Entity I, which is wholly owned by the founder, to submit annual financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

973-10-55-38 Although substantially all of Entity I's business activities are investing in a real estate property, it does not have an express business purpose of holding real estate property for total return because the property is being used as a manufacturing facility by Entity H, which is an affiliate of Entity I because they are under common control. In accordance with paragraph 973-10-55-12, Entity I is not an investment property entity.

> > Example 6: Express Business Purpose—Holding Properties for Rental Income Purposes

973-10-55-39 Five unrelated individuals form Entity J, a partnership, to purchase residential and commercial properties with substantially all of the entity's business activities being investing in real estate properties with the business purpose of collecting of rental income long term by leasing those properties to unaffiliated parties. The individuals do not plan to sell the properties until the partnership is dissolved. Also, the individuals plan to transfer their investment in Entity J to a family member at retirement or death.

973-10-55-40 Entity J meets the nature-of-the-business-activities criterion in paragraph 973-10-15-2(a) because substantially all of its business activities are investing in real estate properties. However, Entity J does not meet the express-business-purpose criterion in paragraph 973-10-15-2(b) because the entity does not have an exit strategy to dispose of the properties to maximize total return and realize capital appreciation. The sale of the properties during liquidation and transfer of an investor's interest in the entity are not considered exit strategies (see paragraph 973-10-55-11). Therefore, Entity J is not an investment property entity.

> > Example 7: Parent Entity That Accounts for Its Investments at Fair Value

973-10-55-41 Entity K wholly owns a partnership, Entity L. Entity L acquires office buildings, leases those buildings to third-party tenants, and disposes of the properties to maximize total return. Entity L is managed by a third-party investment manager, presents itself as investing in real estate for total return (including capital appreciation), and provides quarterly financial reports to Entity K. Entity K is a defined benefit pension plan that accounts for its investments at fair value in accordance with Topic 960.

973-10-55-42 Entity L meets the nature-of-the-business-activities, express-business-purpose, unit-ownership, and reporting-entity criteria in paragraph 973-10-15-2(a) through (c) and (e) because substantially all of Entity L's business activities are investing in real estate properties with an express business purpose of investing in real estate properties for total return with an objective to realize capital appreciation and because it reports its financial results to its investor. Entity L does not meet the pooling-of-funds criterion in paragraph 973-10-15-2(d) because Entity L has only one investor, the pension plan. However, paragraph 973-10-15-3 provides an exemption from the pooling-of-funds criterion for Entity L because its parent entity, Entity K, is required to account for its investment in Entity L at fair value under U.S. GAAP. Therefore, Entity L meets the criteria in paragraphs 973-10-15-2 through 15-3 and is an investment property entity.

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2012-XX, *Real Estate—Investment Property Entities (Topic 973)*

973-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2012-XX, *Real Estate—Investment Property Entities (Topic 973):*

a. The pending content that links to this paragraph shall be effective for interim and annual reporting periods in fiscal years that begin on or after [date to be inserted after exposure].
b. Early adoption of the pending content that links to this paragraph is prohibited.
c. The pending content that links to this paragraph shall be applied prospectively by recognizing a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position before initial application of the pending content that links to this paragraph and the amounts recognized in the statement of financial position immediately after initial application of the pending content that links to this paragraph.

Addition of Subtopic 973-210

7. Add Subtopic 973-210. All paragraphs in this new Subtopic are linked to transition paragraph 973-10-65-1.

Real Estate—Investment Property Entities—Balance Sheet

Overview and Background

973-210-05-1 This Subtopic addresses an investment property entity's reporting of its financial position.

Scope and Scope Exceptions

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are **financial instruments**. For guidance on matters related broadly to all financial instruments (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

973-210-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic; see Section 973-10-15.

Other Presentation Matters

973-210-45-1 An investment property entity shall present separately both of the following items in its statement of financial position:

a. The fair value of **investment properties** held (which shall not include any debt associated with the investment properties)
b. Any debt.

Addition of Subtopic 973-225

8. Add Subtopic 973-225. All paragraphs in this new Subtopic are linked to transition paragraph 973-10-65-1.

Real Estate—Investment Property Entities—Income Statement

Overview and Background

973-225-05-1 This Subtopic addresses an investment property entity's reporting of its results of operations.

Scope and Scope Exceptions

973-225-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic; see Section 973-10-15.

Other Presentation Matters

973-225-45-1 An investment property entity shall present separately both of the following items in its income statement:

a. Rental revenue from **investment properties**
b. Rental operating expenses from investment properties.

973-225-45-2 At a minimum, an investment property entity shall present separately within net income one aggregate amount for realized and unrealized gains or losses on assets and liabilities measured at fair value with all changes in fair value recognized in net income.

Addition of Subtopic 973-323

9. Add Subtopic 973-323. All paragraphs in this new Subtopic are linked to transition paragraph 973-10-65-1.

Real Estate—Investment Property Entities—Investments—Equity Method and Joint Ventures

Overview and Background

973-323-05-1 This Subtopic provides guidance to investment property entities on applying the equity method of accounting.

Scope and Scope Exceptions

973-323-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic; see Section 973-10-15.

Other Presentation Matters

973-323-45-1 Except as discussed in the following paragraph, use of the equity method of accounting by an investment property entity is not appropriate. Instead, investments that would otherwise qualify for the equity method of accounting under Topic 323 shall be measured at fair value with all changes in fair value recognized in net income.

973-323-45-2 An exception to the principle in the preceding paragraph occurs if the investment property entity has an investment in an operating entity that provides services to the investment property entity (for example, property management services). In those cases, the purpose of the investment is to provide services to the investment property entity rather than to realize a gain on the sale of the investment. If an investment property entity holds an interest in such an operating entity and the interest qualifies for use of the equity method of accounting, the investment property entity shall use the equity method of accounting for that investment in accordance with Topic 323 rather than measure the investment at fair value.

Addition of Subtopic 973-360

10. Add Subtopic 973-360. All paragraphs in this new Subtopic are linked to transition paragraph 973-10-65-1.

Real Estate—Investment Property Entities—Property, Plant, and Equipment

Overview and Background

973-360-05-1 This Subtopic addresses an investment property entity's accounting for **investment properties**.

Scope and Scope Exceptions

973-360-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic; see Section 973-10-15.

Recognition

> Right-of-Use Assets Accounted for as Investment Properties

973-360-25-1 A **right-of-use asset** shall be recognized as an **investment property** at the commencement or acquisition of the lease if the underlying asset meets the definition of an investment property under this Topic.

Initial Measurement

973-360-30-1 An **investment property** shall be initially measured at its transaction price. The transaction price shall include all of the following:

a. Professional fees
b. Property transfer taxes
c. Other transaction costs that are part of the purchase transaction.

> Transfers to Investment Property

973-360-30-2 At the date a noninvestment property becomes an investment property, any difference between the carrying amount of the property and its fair value shall be recognized in net income.

> Right-of-Use Assets Accounted for as Investment Properties

973-360-30-3 A **right-of-use asset** that is recognized as an investment property shall be initially measured at fair value in accordance with Topic 820. An equivalent amount shall be recognized as a liability. Any premium paid (or discount received) for a right-of-use asset that is recognized as an investment property shall be treated as an adjustment to the liability recognized for future lease payments.

973-360-30-4 Right-of-use assets that are not recognized as investment properties shall be accounted for in accordance with Topic 840.

Subsequent Measurement

973-360-35-1 After initial recognition, an **investment property**, including **right-of-use assets** that are recognized as investment properties, shall be measured at fair value in accordance with Topic 820.

973-360-35-2 A gain or loss arising from a change in the fair value of an investment property shall be recognized in net income in the period in which it arises.

973-360-35-3 When determining the fair value of investment properties, an investment property entity shall not double count assets or liabilities that are recognized as separate assets or liabilities. For example:

a. Equipment such as elevators or air conditioning is often an integral part of a building and is generally included in the fair value of the investment property rather than recognized separately as property, plant, and equipment.
b. The fair value of investment property excludes prepaid rent or rent receivable, because a market participant would not include those cash flows in determining the amount to sell the property in an orderly transaction.

> Transfers from Investment Property

973-360-35-4 An investment property shall be transferred to noninvestment property status when it no longer meets the definition of an investment property.

973-360-35-5 Transfer of an investment property to noninvestment property status shall be made when there is a change in the asset's use (for example, an investment property is subsequently used as an owner-occupied property).

973-360-35-6 The initial carrying value of an investment property that is subsequently used by the entity for the production or supply of goods or services or for administrative purposes shall be its fair value on the date of the change in use. The property shall subsequently be accounted for in accordance with Topic 360.

973-360-35-7 If an investment property entity subsequently begins the development of an investment property with the intention to sell the property once it is complete, the investment property entity shall continue to measure the property at fair value until it is sold.

Derecognition

973-360-40-1 An **investment property** shall be derecognized upon disposal in accordance with derecognition guidance in Subtopics 360-10 and 360-20.

Disclosure

973-360-50-1 An investment property entity shall disclose all of the following:

a. The amounts recognized in net income for direct operating expenses, separately for **investment properties** that generated rental revenue during the period and investment properties that did not generate rental revenue during the period
b. Any restrictions on the ability to increase rent, collect rental revenue, or collect proceeds on the sale of an investment property
c. Any contractual obligations related to an investment property.

Addition of Subtopic 973-605

11. Add Subtopic 973-605. All paragraphs in this new Subtopic are linked to transition paragraph 973-10-65-1.

Real Estate—Investment Property Entities—Revenue Recognition

Overview and Background

973-605-05-1 This Subtopic addresses an investment property entity's reporting of revenue from leases of **investment property**.

Scope and Scope Exceptions

973-605-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic; see Section 973-10-15.

Recognition

973-605-25-1 An investment property entity shall recognize rental revenue arising from a lease of an **investment property** when lease payments are received or as the lease payments become receivable in accordance with the contractual terms of the related lease.

Addition of Subtopic 973-805

12. Add Subtopic 973-805. All paragraphs in this new Subtopic are linked to transition paragraph 973-10-65-1.

Real Estate—Investment Property Entities—Business Combinations

Overview and Background

973-805-05-1 This Subtopic addresses an investment property entity's reporting of **investment properties** acquired in a business combination.

Scope and Scope Exceptions

973-805-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic; see Section 973-10-15.

Initial Measurement

> Investment Property Acquired in a Business Combination

973-805-30-1 An **investment property** acquired in a business combination shall not be subject to paragraph 805-20-30-5. Rather, an investment property acquired in a business combination shall be initially measured at fair value in accordance with Topic 820, which would require the fair value to include expected cash flows under a lease agreement.

Addition of Subtopic 973-810

13. Add Subtopic 973-810. All paragraphs in this new Subtopic are linked to transition paragraph 973-10-65-1.

Real Estate—Investment Property Entities—Consolidation

Overview and Background

973-810-05-1 This Subtopic addresses an investment property entity's application of consolidation guidance in Topic 810.

Scope and Scope Exceptions

973-810-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic; see Section 973-10-15.

Other Presentation Matters

973-810-45-1 An investment property entity shall consolidate an investment in the following entities if that investment is a controlling financial interest in accordance with Topic 810:

a. Another investment property entity as defined in this Topic
b. An investment company as defined in Topic 946
c. An operating entity that provides services to the investment property entity (for example, property management services). In those cases, the purpose of the investment is to provide services to the investment property entity rather than to realize a gain on the sale of the investment.

973-810-45-2 Except as discussed in the preceding paragraph, consolidation by an investment property entity of a controlling financial interest in any other entity is not appropriate. Controlling financial interests in any other entity shall be measured at fair value with all changes in fair value recognized in net income.

Amendments to Subtopic 323-10

14. Amend paragraph 323-10-15-4, with a link to transition paragraph 973-10-65-1, as follows: [This paragraph also contains amendments from proposed Accounting Standards Update, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements.*]

Investments—Equity Method and Joint Ventures—Overall

Scope and Scope Exceptions

> Instruments

323-10-15-4 The guidance in this Topic does not apply to any of the following:

a. An investment accounted for <u>as a derivative instrument </u>in accordance with Subtopic 815-10

b. An investment in common stock held by a nonbusiness entity, such as an estate, trust, or individual ~~any of the following entities~~:
    1. Subparagraph superseded by Accounting Standards Update No. 2012-XX.~~An investment company registered under the Investment Company Act of 1940~~
    2. Subparagraph superseded by Accounting Standards Update No. 2012-XX.~~An investment company that would be included under the Investment Company Act of 1940 (including a small business investment company) except that the number of stockholders is limited and the securities are not offered publicly~~
    3. Subparagraph superseded by Accounting Standards Update No. 2012-XX.~~A nonbusiness entity, such as an estate, trust, or individual.~~

c. An investment in common stock within the scope of ~~Topic 810.~~Topic 810

d. Except as discussed in paragraph 946-323-45-2, an investment held by an investment company within the scope of Topic 946.

e. Except as discussed in paragraph 973-323-45-2, an investment held by an investment property entity within the scope of Topic 973.

Amendments to Subtopic 805-20

15. Amend paragraph 805-20-30-5, with a link to transition paragraph 973-10-65-1, as follows:

Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest

Initial Measurement

> > Assets Subject to Operating Leases in Which the Acquiree Is the Lessor

805-20-30-5 Except as discussed in paragraph 973-805-30-1, the ~~The~~ acquirer shall measure the acquisition-date fair value of an asset, such as a building or a patent or other intangible asset, that is subject to an operating lease in which the acquiree is the lessor separately from the lease contract. In other words, the fair value of the asset shall be the same regardless of whether it is subject to an operating lease. In accordance with paragraph 805-20-25-12, the acquirer separately recognizes an asset or a liability if the terms of the lease are favorable or unfavorable relative to market terms.

Amendments to Subtopic 810-10

16. Amend paragraph 810-10-15-10, with a link to transition paragraph 973-10-65-1, as follows:

Consolidation—Overall

Scope and Scope Exceptions

> Entities

810-10-15-10 A reporting entity shall apply consolidation guidance for entities that are not in the scope of the Variable Interest Entities Subsections (see the Variable Interest Entities Subsection of this Section) as follows:

a. All majority-owned subsidiaries—all entities in which a parent has a controlling financial interest—shall be consolidated. However, there are exceptions to this general rule.
    1. A majority-owned subsidiary shall not be consolidated if control does not rest with the majority **owner**—for instance, if any of the following are present:
        i. The subsidiary is in legal reorganization
        ii. The subsidiary is in bankruptcy
        iii. The subsidiary operates under foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast significant doubt on the parent's ability to control the subsidiary.
        iv. In some instances, the powers of a shareholder with a majority voting interest to control the operations or assets of the investee are restricted in certain respects by approval or veto rights granted to the noncontrolling shareholder (hereafter referred to as noncontrolling rights). In paragraphs 810-10-25-2 through 25-14, the term *noncontrolling shareholder* refers to one or more noncontrolling shareholders. Those noncontrolling rights may have little or no impact on the ability of a shareholder with a majority voting interest to control the investee's operations or assets, or, alternatively, those rights may be so restrictive as to call into question whether control rests with the majority owner.
        v. Control exists through means other than through ownership of a majority voting interest, for example as described in (b) through (e).
    2. A majority-owned subsidiary in which a parent has a controlling financial interest shall not be consolidated if the parent is a broker-

dealer within the scope of Topic 940 and control is likely to be temporary.
    3. Except as discussed in paragraph 946-810-45-3, consolidation by an investment company within the scope of Topic 946 of a non-investment-company investee is not appropriate.
    4. An investment property entity within the scope of Topic 973 shall consolidate controlling financial interests in entities listed in paragraph 973-810-45-1. Consolidation of controlling financial interests in all other entities by an investment property entity within the scope of Topic 973 is not appropriate.
b. Subtopic 810-20 shall be applied to determine whether the rights of the limited partners in a limited partnership overcome the presumption that the general partner controls, and therefore should consolidate, the partnership.
c. Subtopic 810-30 shall be applied to determine the consolidation status of a research and development arrangement.
d. The Consolidation of Entities Controlled by Contract Subsections of this Subtopic shall be applied to determine whether a contractual management relationship represents a controlling financial interest.
e. Paragraph 710-10-45-1 addresses the circumstances in which the accounts of a rabbi trust that is not a VIE (see the Variable Interest Entities Subsections for guidance on VIEs) shall be consolidated with the accounts of the employer in the financial statements of the employer.

17. Amend paragraph 810-10-15-12, with a link to transition paragraph 973-10-65-1, as follows:

810-10-15-12 The guidance in this Topic does not apply in any of the following circumstances:

a. An employer shall not consolidate an employee benefit plan subject to the provisions of Topic 712 or 715.
b. Subparagraph superseded by Accounting Standards Update No. 2009-16
c. Subparagraph superseded by Accounting Standards Update No. 2009-16
d. Investments accounted for at fair value in accordance with the specialized accounting guidance in Topic 946 and Subtopic 973-810 are not subject to consolidation according to the requirements of this Topic.
e. A reporting entity shall not consolidate a governmental organization and shall not consolidate a financing entity established by a governmental organization unless the financing entity meets both of the following conditions:
    1. Is not a governmental organization

2. Is used by the business entity in a manner similar to a ~~(VIE)~~VIE in an effort to circumvent the provisions of the Variable Interest Entities Subsections.

Amendments to Subtopic 820-10

18. Amend paragraph 820-10-15-4, with a link to transition paragraph 973-10-65-1, as follows:

Fair Value Measurement—Overall

Scope and Scope Exceptions

> > Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-15-4 Paragraphs 820-10-35-59 through 35-62 and 820-10-50-6A shall apply only to an investment that meets both of the following criteria as of the reporting entity's measurement date:

a. The investment does not have a **readily determinable fair value**
b. The investment is in ~~an entity that has all of the attributes specified in paragraph 946-10-15-2 or, if one or more of the attributes specified in paragraph 946-10-15-2 are not present, is in an entity for which it is industry practice to issue financial statements using guidance that is consistent with the measurement principles in Topic 946 (for example, certain investments in real estate funds that measure investment assets at fair value on a recurring basis).~~ either of the following entities:
    1. An investment company as defined in Topic 946
    2. An investment property entity as defined in Topic 973 and in which the reporting entity (the investor) would transact at net asset value per share.

19. Amend paragraphs 820-10-35-59 through 35-60, with a link to transition paragraph 973-10-65-1, as follows:

Subsequent Measurement

> Measuring the Fair Value of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-35-59 A reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) of the investment, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 or 973 as of the reporting entity's measurement date.

820-10-35-60 If the net asset value per share of the investment obtained from the investee is not as of the reporting entity's measurement date or is not calculated in a manner consistent with the measurement principles of Topic 946 or 973, the reporting entity shall consider whether an adjustment to the most recent net asset value per share is necessary. The objective of any adjustment is to estimate a net asset value per share for the investment that is calculated in a manner consistent with the measurement principles of Topic 946 or 973 as of the reporting entity's measurement date.

Amendments to Subtopic 970-10

20. Amend paragraph 970-10-05-1, with a link to transition paragraph 973-10-65-1, as follows:

Real Estate—General—Overall

Overview and Background

970-10-05-1 The Codification contains several Topics for ~~Real Estate~~real estate due to the differing accounting treatment for various real estate subindustries. The Topics include:

a. Real Estate—General
b. Real Estate—Common Interest Realty Associations
bb. Real Estate—Investment Property Entities
c. Real Estate—Real Estate Investment Trusts
d. Real Estate—Retail Land
e. Real Estate—Time-Sharing Activities.

Additionally, Subtopic 360-20 provides guidance for general real estate transactions other than retail land.

Amendments to Subtopic 972-10

21. Amend paragraph 972-10-05-1, with a link to transition paragraph 973-10-65-1, as follows:

Real Estate—Common Interest Realty Associations—Overall

Overview and Background

972-10-05-1 The Codification contains several Topics for real estate due to the differing accounting treatment for various real estate subindustries. The Topics include:

a. Real Estate—General
b. Real Estate—Common Interest Realty Associations
bb. Real Estate—Investment Property Entities
c. Real Estate—Real Estate Investment Trusts
d. Real Estate~~—**Time-Sharing** Activities~~Retail Land
e. Real Estate~~—Retail Land.~~Time-Sharing Activities.

See also Subtopic 360-20 for accounting guidance for the sale of real estate other than retail land.

Amendments to Subtopic 974-10

22. Amend paragraph 974-10-05-1, with a link to transition paragraph 973-10-65-1, as follows:

Real Estate—Real Estate Investment Trusts—Overall

Overview and Background

974-10-05-1 The Codification contains several Topics for real estate due to the differing accounting treatment for various real estate subindustries. The Topics include:

a. Real Estate—General
b. Real Estate—Common Interest Realty Associations
bb. Real Estate—Investment Property Entities
c. Real Estate—Real Estate Investment Trusts
d. Real Estate~~—**Time-Sharing** Activities~~Retail Land
e. Real Estate~~—Retail Land.~~Time-Sharing Activities.

See also Subtopic 360-20 for accounting guidance for the sale of real estate other than retail land.

Amendments to Subtopic 976-10

23. Amend paragraph 976-10-05-1, with a link to transition paragraph 973-10-65-1, as follows:

Real Estate—Retail Land—Overall

Overview and Background

976-10-05-1 The Codification contains several Topics for real estate due to the differing accounting treatment for various real estate subindustries. The Topics include:

a. Real Estate—General
b. Real Estate—Common Interest Realty Associations
bb. Real Estate—Investment Property Entities
c. Real Estate—Real Estate Investment Trusts
d. Real Estate—Retail Land
e. Real Estate—Time-Sharing Activities.

See also Subtopic 360-20 for accounting guidance for the sale of real estate other than retail land.

Amendments to Subtopic 978-10

24. Amend paragraph 978-10-05-1, with a link to transition paragraph 973-10-65-1, as follows:

Real Estate—Time-Sharing Activities—Overall

Overview and Background

978-10-05-1 The Codification contains several Topics for real estate due to the differing accounting treatment for various real estate subindustries. The Topics include:

a. Real Estate—General
b. Real Estate—Common Interest Realty Associations
bb. Real Estate—Investment Property Entities
c. Real Estate—Real Estate Investment Trusts
d. Real Estate~~—Time-Sharing Activities~~Retail Land
e. Real Estate—~~Retail Land.~~Time-Sharing Activities.

See also Subtopic 360-20 for accounting guidance for the sale of real estate other than retail land.

The amendments in this proposed Update were approved for publication by six members of the Financial Accounting Standards Board. Mr. Smith voted against publication of the amendments. His alternative view is set out at the end of the Basis for Conclusions.

Members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information, Basis for Conclusions, and Alternative View

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The amendments in this proposed Update would provide accounting guidance for an entity that meets the criteria to be an investment property entity. The proposed amendments also would introduce additional presentation and disclosure requirements for an investment property entity. The proposed amendments would be incremental guidance for investment property entities. Accordingly, in addition to the proposed amendments, an investment property entity would be required to follow applicable guidance in other Topics. For example, an investment property entity would follow guidance in the Presentation Area of the Codification for financial reporting and disclosure requirements in all other relevant Topics.

BC3. The proposed amendments would require an investment property entity to:

a. Initially measure investment properties at transaction price, including transaction costs.
b. Subsequently measure investment properties at fair value with all changes in fair value recognized in net income.
c. Measure real estate properties other than investment properties in accordance with other relevant U.S. GAAP.
d. Consolidate controlling financial interests in the following entities in accordance with Topic 810:
    1. Another investment property entity
    2. An investment company as defined in Topic 946
    3. An operating company that provides services to the investment property entity.

    A controlling financial interest in any other entity would be measured at fair value with all changes in fair value recognized in net income.
e. Present separately and provide disclosures relating to rental income and rental expenses on investment.

Background Information

BC4. In 2009, the EITF began deliberations to address the diversity in practice related to entities that invest in real estate. Some real estate entities currently measure their real estate investments at fair value because (a) they have determined that they are investment companies in accordance with Topic 946, (b) they are controlled by pension plans that are required to measure investments at fair value, or (c) the development of industry accounting practices allows them to measure real estate investments at fair value without regard to investment company attributes or pension plan ownership.

BC5. IAS 40 provides entities with an option to measure investment properties at fair value or cost. Currently, there are no specific accounting requirements for investment properties in the United States, and, as a result, other than in the situations described in paragraph BC4, investment properties are accounted for similar to property, plant, and equipment under U.S. GAAP.

BC6. As part of the FASB's and the IASB's joint project on the accounting for leases, the IASB decided that a lessor of an investment property would not be required to apply the proposed lessor accounting requirements in the IASB's August 2010 Exposure Draft on leases if the lessor measures its investment properties at fair value by electing the fair value model under IAS 40. To align the scope of entities that would apply the proposed lessor accounting model under U.S. GAAP and IFRS, and to address the diversity in practice regarding the accounting by real estate entities, the FASB added a project to its agenda to determine whether to permit or require investment properties to be carried at fair value.

Scope

BC7. The Board initially discussed adopting the guidance in IAS 40 and providing all entities with an option to measure their investment properties at fair value or cost. However, the Board was concerned that providing an option would reduce comparability between entities with similar economic circumstances if one entity elects the fair value model while another entity elects the cost model. The Board also discussed requiring all entities to measure their investment properties at fair value. However, the Board concluded that the costs outweighed the benefits for this approach. Ultimately, the Board decided that rather than providing an option to all entities, entities that meet certain criteria should be required to measure their investment properties at fair value. That approach would result in comparable financial reporting for entities in which substantially all of their business activities are investing in investment properties. It also would not be burdensome for entities that may hold investment properties but in which substantially all of their business activities are not investing in a real estate property or properties.

BC8. In developing the criteria for which entities should be required to measure their investment properties at fair value, the Board identified the types of entities that elect the fair value model under IAS 40 for their investment properties. The Board noted that, typically, publicly traded property entities elect the fair value model under IAS 40. The Board also noted that entities with investments in real estate properties but in which substantially all of their business activities are not investing in real estate properties typically do not elect the fair value model under IAS 40 for their investment properties. The Board believes that the entities that would be investment property entities by applying the amendments in this proposed Update generally would be the types of entities that elect the fair value model under IAS 40.

BC9. The Board also obtained feedback from U.S. stakeholders on which types of entities should be required to measure their investment properties at fair value. Most U.S. stakeholders (investors and others) agreed that for entities in which substantially all of their business activities are investing in a real estate property or properties, such as real estate investment trusts, fair value is the most relevant measurement attribute for the entities' investment properties. Nonpublic entity stakeholders stated that requiring fair value measurement for investment properties held by entities that invest in a real estate property or properties but in which substantially all of their business activities are not related to investing in real estate properties would place undue burden on those entities with minimal incremental value to their investors. The criteria necessary to be an investment property entity incorporates that feedback received from U.S. stakeholders.

Criteria to Be an Investment Property Entity

BC10. During the deliberations of the amendments in this proposed Update, the Board was completing its deliberations on a joint project with the IASB to modify the definition of an investment company under Topic 946. The Board decided to use the definition of an investment company in the proposed Update on investment companies as a starting point for developing the criteria to be an investment property entity.

BC11. When developing the criteria to be an investment property entity, the Board modified the investment company definition to focus on those entities in which substantially all of their business activities are investing in a real estate property or properties for total return, including an objective to realize capital appreciation. The Board believes that the key distinction between an investment property entity and an investment company is the portfolio of investment assets (financial and nonfinancial) that the entity holds and the returns the entity seeks from those investment assets. Therefore, the criteria to be an investment property entity focus on the nature of the entity's assets, the business activities that the entity undertakes, and the entity's express business purpose.

Nature of the Business Activities

BC12. The Board believes that when substantially all of an entity's business activities are investing in a real estate property or properties, the entity should be required to measure its investment property or properties at fair value.

BC13. The Board acknowledged that investments in real estate could be in forms other than investments in real estate properties. An entity could have exposure to real estate through real-estate-related securities, mortgage receivables, or noncontrolling financial interests in other real estate entities. The Board believes that it is more appropriate for an entity that invests in those types of investments to apply other applicable U.S. GAAP, including the guidance related to investment companies in Topic 946 if the entity meets the criteria to be an investment company. Accordingly, the criteria to be an investment property entity focus on whether substantially all of the entity's business activities are investing in a real estate *property* or *properties*.

BC14. Many entities do not own investment properties directly but have controlling financial interests in entities that directly own a real estate property or properties for investment purposes. Entities also may own a real estate property or properties directly. The Board decided that the evaluation of whether an entity invests in a real estate property or properties should be based on whether the entity directly holds the real estate property or properties, or invests in a real estate property or properties through a controlling financial interest in another entity that has business activities and a business purpose consistent with that of an investment property entity. The Board's decision was based on the decision to require an investment property entity to consolidate another investment property entity subsidiary. Accordingly, the parent entity's financial statements would include both directly held properties and those held by consolidated investment property entity subsidiaries. The Board decided that the evaluation of an entity's business activities and business purpose should consider all investment properties that would be included in the consolidated financial statements.

BC15. The Board believes that business activities related to investing in a real estate property or properties generally include buying, selling, and managing those properties. Judgment would be required to determine whether other business activities such as those that may enhance the value of real estate properties would qualify as relating to investing in a real estate property or properties. An entity performing significant business activities other than investing in a real estate property or properties would call into question whether that entity is an investment property entity. For example, an entity that operates a hotel that is located on its investment property may be investing in a real estate property, but the activities related to operating the hotel are not considered investing in a real estate property. The Board believes that when less than substantially all of an entity's business activities are related to investing in real estate properties, the entity should be not be an investment property entity.

Rather, those entities should be subject to other guidance that is more relevant to the entities' business activities.

Express Business Purpose

BC16. The Board believes that an entity's business activities are best demonstrated not only by the activities performed by the entity but also by how the entity presents itself to its investors. Therefore, the Board decided that the way an investment property entity describes itself to its investors should be aligned with the nature of its business activities. The Board decided that an investment property entity should express to investors that its business purpose is to invest in a real estate property or properties for total return, including an objective to realize capital appreciation. The Board noted that evidence of the entity's express business purpose may be included in the entity's offering memorandum, publications distributed by the entity, and other corporate or partnership documents that indicate the entity's investment objectives. Evidence of the entity's express business purpose also may include the manner in which the entity presents itself to other parties (such as potential investors or potential investees).

BC17. When developing the criteria for an investment company, the Board decided that an exit strategy for its investments is essential to support a business purpose of realizing capital appreciation. Similarly, the Board believes that an exit strategy also is required to support the business purpose of an investment property entity. The Board believes that fair value measurement is most relevant for investment properties if the entity's business purpose includes a strategy to dispose of its real estate properties to maximize total return and realize capital appreciation. However, the Board decided not to define a time frame for employing that exit strategy because exit strategies could be affected by various conditions such as economic and geographic environments.

BC18. The Board believes that if substantially all of an entity's business activities are holding real estate properties to collect rental income long term with no exit strategy for the properties, that entity should not be required to measure its real estate properties at fair value. Rather, that entity should be required to apply leasing guidance because the entity most likely uses real estate properties as its operating assets instead of as investing assets.

BC19. The Board received feedback that investors in many nonpublic operating entities often set up a separate real estate entity (for tax or estate planning purposes) to hold real estate properties and lease those properties to the affiliated operating entity. In those circumstances, because the property entity's express business purpose is to provide operating space for an affiliated operating entity, the Board decided that it would not be appropriate for the property entity to measure its properties at fair value. Accordingly, the Board included implementation guidance providing examples of situations in which an entity would not meet the express-business-purpose criterion because the entity or its affiliates obtain or have the objective of obtaining returns from the entity's investments other than total return, including capital appreciation.

BC20. The Board also received feedback from many nonpublic real estate entities that they often hold certain real estate properties to obtain tax credits. The Board believes that judgment would be required to determine whether the business purpose for holding those properties is consistent with the express-business-purpose criterion to be an investment property entity. That is, to be an investment property entity, the entity's business purpose should be to invest in those properties with an objective to realize capital appreciation, which would include having an exit strategy for the properties.

BC21. The Board also identified two specific situations in which the business purpose for an entity's real estate property investments would not be consistent with maximizing total return, including an objective to realize capital appreciation. The Board believes that real estate properties held by an entity for (a) production or supply of goods or services or administrative purposes or (b) development to sell in the ordinary course of business upon completion are inconsistent with the business purpose of an investment property entity.

Real Estate Property Held for Its Own Use in the Production or Supply of Goods or Services or for Administrative Purposes

BC22. The Board believes that an entity whose express business purpose is to hold real estate properties for its own use in the production or supply of goods or services or for administrative purposes should not measure its properties at fair value because that entity is not investing in real estate properties to maximize total return, including an objective to realize capital appreciation. Rather, the Board believes that the entity's business purpose is generating goods or providing services.

Development for Sale in the Ordinary Course of Business upon Completion

BC23. The Board believes that an entity whose express business purpose is to invest in real estate properties for development to sell in the ordinary course of business upon completion (such as land developers and home builders) should not measure its investment properties at fair value. The Board believes that for such an entity, real estate properties are similar to a manufacturer's inventory that is measured at cost. Including that entity in the scope of the proposed amendments would result in a conflict with the accounting requirements in Topic 330, Inventory.

Unit Ownership

BC24. To be an investment property entity, an entity is required to have ownership interests represented by units in the form of equity or partnership interests. The Board included the unit-ownership criterion to ensure that an investment property entity would have investors that enter and exit their investments in an investment property entity who rely on the fair value of the entity's investment properties to make their investment decisions.

Pooling of Funds

BC25. The Board considered whether the nature and composition of the entity's investors should be a factor in determining whether the entity is an investment property entity. The Board considered whether there should be a requirement that an investment property entity have a minimum number of investors or that a prescribed percentage of the investors should be passive investors. The Board did not propose such a requirement because it noted that an entity could be structured to meet that requirement without substantively changing the nature of the entity.

BC26. The Board concluded that the entity must have one or more 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 to be an investment property entity. The Board was concerned that without such a requirement, an investment property entity could be inserted into a larger corporate structure to achieve a particular accounting outcome while the parent could own almost all of that investment property entity with a nominal amount held by an unrelated investor. Investors that are related to the parent would be treated, along with the parent, as a single investor for the purposes of evaluating compliance with the pooling-of-funds criterion.

BC27. The Board noted that a parent entity could enter into side arrangements with the investment property entity's other investors, which would expose the parent entity to all the underlying investments. Because of that concern, the Board decided that if the parent entity or its related parties have an implicit or explicit arrangement that could result in the parent being required to acquire another investor's interests in the entity for an amount that is not fair value, those investments should be combined and treated as if they were held by the parent entity.

Exemption from Unit-Ownership and Pooling-of-Funds Criteria

BC28. The Board decided to provide an exemption from the unit-ownership and pooling-of-funds criteria for subsidiary entities that have (a) a parent entity that is required to account for its investments at fair value in accordance with

U.S. GAAP or (b) a parent entity that is a not-for-profit entity under Topic 958 that measures its investments at fair value. Pension funds, investment companies, and some not-for-profit entities are either required or permitted to measure their investments at fair value. Many of those entities set up entities for tax, regulatory, or other purposes that invest in real estate on their behalf. The business activities and business purpose of those majority-owned real estate entities would meet the criteria for an investment property entity. However, because those entities are wholly owned or may not have investors not related to the parent entity who, in aggregate, hold a significant ownership interest, they would fail the pooling-of-funds criterion. The Board decided that because the parent entity is required to measure its investment in the real estate subsidiary at fair value, allowing the subsidiary to measure its investment properties at fair value would facilitate the parent entity's fair value reporting in its financial statements.

Reporting Entity

BC29. The Board initially considered requiring an investment property entity to be a separate legal entity. However, that requirement may cause entities to be excluded from the scope of this proposed Update that otherwise would be considered investment property entities. For example, some entities that are considered legal entities in one jurisdiction may not be considered legal entities in other jurisdictions (for example, partnerships).

BC30. In addition, the Board believes that a portion of an entity should be permitted to meet the reporting-entity criterion if the economic activities of that portion can be distinguished objectively from the rest of the entity and the financial results of that portion of the entity are useful in making decisions about whether to provide resources to that portion. For example, separate accounts of life insurance companies may not be separate legal entities. However, investors in the separate accounts base their investment decisions on the financial results of their separate accounts. Conversely, a branch or division of an entity whose performance is only evaluated by management internally on a standalone basis would not meet this criterion.

BC31. Accordingly, the Board decided that an investment property entity can but need not be a separate legal entity. Furthermore, the Board believes that the entity must report financial results to its investors who rely on the fair value of the entity's investment properties to make their investment decisions to be an investment property entity.

Measurement

BC32. The proposed amendments would require an investment property entity to initially measure its investment properties at transaction price, including transaction costs. The Board decided that initial measurement should be aligned with the initial measurement guidance in IAS 40 and Topic 946 for investment companies.

BC33. The proposed amendments would require an investment property entity to subsequently measure its investment properties at fair value with all changes in fair value recognized in net income. As discussed in paragraphs BC7–BC9, the Board believes that fair value measurement of investment properties would provide the most useful information about the amount, timing, and uncertainty of cash flows to users of investment property entity financial statements.

BC34. Under the proposed amendments, the definition of an investment property is consistent with the business purpose of an investment property entity. The definition also is consistent with the definition of an investment property in IAS 40, except that IAS 40 allows an entity to designate part of a building as an investment property.

BC35. The Board also decided that a right-of-use asset in which the underlying asset meets the definition of an investment property should be measured at fair value with all changes in fair value recognized in net income. The Board noted that if an entity enters into a lease contract for a real estate property instead of purchasing the property, but the purpose of the transaction is for investing purposes, including changes in fair value of the lease in net income (that is, changes in market rental rates and so forth) would be decision useful for financial statement users. Right-of-use assets that would be recognized as investment properties include ground leases in which an entity leases land from a land owner (typically, the government) for a long period of time with the intent of disposing of the lease if the value of the lease increases.

BC36. The guidance in the proposed Update on leases would require a lessee to recognize a right-of-use asset and a related obligation when it enters into a lease arrangement. The Board decided that an investment property entity should measure a right-of-use asset at the fair value of the right to use the property, rather than at the fair value of the lease.

BC37. The Board also decided that real estate properties other than investment properties, including right-of-use assets in which the underlying asset does not meet the definition of investment property, should be accounted for under other applicable U.S. GAAP. Requiring fair value measurement of real estate properties other than investment properties would be outside the scope of this project and would require reconsideration of various guidance in U.S. GAAP. The Board noted that owning significant real estate properties that are not investment properties would call into question whether the entity is an investment property entity.

Practicability Exception to Fair Value Measurement

BC38. The Board decided not to provide a practicability exception to fair value measurement for investment properties under construction. The Board noted that making an exception for properties under construction would result in different measurement attributes for properties under construction from those that are completed properties and would be inconsistent with the entity's business activities. The Board recognizes that this decision is not convergent with IAS 40, which permits an entity to measure investment property at cost until fair value can be reliably measured.

BC39. IAS 40 also permits cost measurement when the market for comparable properties is inactive (for example, there are few recent transactions, price quotations are not current, or observed transaction prices indicate that the seller was forced to sell) and alternative reliable measurements of fair value (for example, based on discounted cash flow projections) are not available. The Board decided not to provide a practicability exception when fair value cannot be reliably measured for investment properties because Topic 820, Fair Value Measurement, provides significant guidance for measuring fair value in those circumstances.

Subsequent Decision to Sell Investment Property

BC40. When an investment property entity changes its business purpose for an investment property by beginning development of the property with a plan to sell upon completion, the Board decided that the investment property entity should continue to measure the property at fair value. The Board believes that fair value is the most relevant measurement attribute when a property is held for sale and, therefore, the property should continue to be measured at fair value rather than accounted for in accordance with other U.S. GAAP.

Investment Properties Acquired in a Business Combination

BC41. Currently, in accordance with Topic 805, Business Combinations, the acquisition date fair value of a property subject to an operating lease is calculated separately from the lease contract. That is, the fair value of the asset is the same regardless of whether it is subject to a lease contract. The acquirer separately recognizes an asset or a liability if the terms of the lease are favorable or unfavorable relative to market terms.

BC42. The Board decided that the fair value of an investment property held by an investment property entity should be calculated including expected cash flows from any lease contracts. Accordingly, to eliminate the potential conflict of initially measuring an investment property acquired in a business combination at fair value excluding the lease contract and then subsequently measuring the property considering the lease contract, the Board decided that investment properties acquired in a business combination should be exempt from the requirement in Topic 805 to measure the acquisition date fair value of acquired properties excluding lease contracts. An investment property entity would follow all other guidance in Topic 805 relating to business combinations.

BC43. The Board recognizes that if an investment property entity purchases another investment property entity, the entity purchased would be considered a *business* under business combinations guidance, which would lead to inconsistency in accounting for the underlying properties depending on whether or not the entity purchased meets the definition of a business. If the entity purchased is considered a business, Topic 805 requires the investment property entity to measure assets acquired in the business combination at fair value on the acquisition date with all transaction costs recognized as expenses. However, if the entity purchased does not meet the definition of a business, the investment property entity would account for the transaction as an asset acquisition. Accordingly, the properties acquired by the investment property entity would initially be measured at transaction price, including transaction costs. The Board believes that amending the definition of a business is outside the scope of this project and would require a reconsideration of business combinations guidance.

Interests in Other Entities

BC44. The Board believes that an investment property entity often will establish for legal or tax purposes a subsidiary that will purchase the investment properties. The Board decided to require an investment property entity to consolidate controlling financial interests in another investment property entity to ensure that investors are provided with similar information for both directly held properties and those held through another investment property entity.

BC45. The Board also decided that an investment property entity should consolidate controlling financial interests in investment companies. The Board noted that holding significant controlling financial interests in investment companies would call into question an entity's status as an investment property entity. However, the Board believes that an investment property entity could hold real-estate-related investments, such as mortgage-backed securities, in a subsidiary investment company. The Board believes that consolidation of controlling financial interests in an investment company would increase transparency by providing information about the subsidiary's investments and debt obligations to which the parent investment property entity is exposed and also would result in consistent reporting by investment property entities and investment companies.

BC46. The Board decided that it would be inappropriate for an investment property entity to consolidate other controlling financial interests unless the subsidiary is in an operating entity that provides services to the investment property entity. The Board notes that the business activities and business purpose of operating entities are not consistent with those criteria for an investment property entity. Therefore, the Board believes that fair value measurement of operating entities would better reflect the investment objectives and activities of an investment property entity. However, the Board believes that consolidation of controlling financial interests in operating entities that provide services to the investment property entity is appropriate because the business activities of the operating entity are integral to the business activities of the investment property entity. The Board also believes that this requirement would prevent structuring opportunities in which entities establish a separate entity for property-related operations to avoid providing information related to property-related expenses.

BC47. The Board decided that an investment property entity should not apply the equity method of accounting in Topic 323 for investments in entities (including another investment property entity and an investment company) over which the investment property entity can exercise significant influence unless the investee is in an operating entity that provides services to the investment property entity. The Board believes that application of the equity method would be inconsistent with the evaluation of the nature-of-the-business-activities and express-business-purpose criteria. To meet the nature-of-the-business-activities and express-business-purpose criteria, an entity would be required to directly hold or indirectly hold properties through a controlling financial interest in another investment property entity. An entity would not be permitted to look through interests over which the entity can exercise significant influence when evaluating whether it meets those criteria. The Board believes that if an entity is not permitted to look through those interests, it should not be required to apply the equity method of accounting.

BC48. In addition, although the Board decided that an investment property entity should consolidate controlling financial interests in another investment property entity or investment company, it does not believe that requiring an investment property entity to apply the equity method of accounting for interests in those entities would provide additional useful information because substantially all of the underlying investments in investment property entity and investment company investees are measured at fair value.

BC49. The Board decided that financial interests in entities in which the investment property entity does not have a controlling financial interest or over which the investment property entity cannot exercise significant influence should be measured in accordance with other U.S. GAAP. The Board believes that addressing measurement of those financial instruments is outside the scope of this project and within the scope of the accounting for financial instruments project, which is currently on the Board's agenda.

Use of the Net Asset Value Practical Expedient

BC50. The Board decided that an investor in an investment property entity would be permitted to use the net asset value practical expedient in Topic 820 on fair value measurement to estimate the fair value of its investment if the investor would transact at net asset value per share. The Board acknowledged that many real estate funds that currently account for their investments in accordance with guidance in Topic 946 on investment companies would be investment property entities under the proposed amendments. Those entities currently measure their investments at fair value and investors in those entities transact at net asset value per share, enabling those investors to qualify for use of the net asset value practical expedient to estimate the fair value of their investment.

BC51. The basis for conclusions in FASB Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, states that the Board concluded that use of net asset value per share to estimate fair value is reasonable when substantially all of the underlying assets are measured at fair value and the reporting entity exits its investment at net asset value per share. The Board believes that because substantially all of an investment property entity's business activities must be investing in real estate properties and because investment properties held would be measured at fair value, the use of the net asset value practical expedient should be permitted if the investor in the investment property entity transacts at net asset value per share. The Board believes that permitting the use of the net asset value practical expedient also provides measurement consistency between investments in real estate funds that would be investment property entities and those that are investment companies.

Rental Revenue Recognition

BC52. The Board decided that rental revenue from investment properties subject to a lease should be recognized when lease payments are received or as the lease payments become receivable in accordance with the contractual terms of the related lease to be consistent with fair value measurement of investment properties. Therefore, increases in rent due to concessions such as free rent or decreased rent would not be recognized until the rent income is earned and billable. The Board noted that the fair value of an investment property would include the effects of future rent increases. Requiring an entity to recognize rental revenue on a straight-line basis over the lease term would require an adjustment to the fair value of the investment property to avoid double counting. The Board believes that including the effects of future rent increases is more relevant as part of the fair value of the property than recognizing rental revenue on a straight-line basis.

Presentation

BC53. The Board decided that an investment property entity should present separately the following on the face of the financial statements related to its investment properties:

a. Rental revenue
b. Rental operating expenses
c. Fair value
d. Any debt.

BC54. The Board believes that those items are vital to understanding the nature, risks, and benefits of investment property entities. The Board notes that rental income from investment properties serves as a key performance indicator for investment property entities that have rental activities. Therefore, presenting rental income separately from investment-property-related expenses in the statement of operations would provide relevant information for investors compared to netting property-related expenses with rental income.

Disclosure

BC55. The Board believes that the disclosures for investment properties should provide the following information:

a. The amounts recognized in net income for direct operating expenses, separately for investment properties that generated rental revenue during the period and investment properties that did not generate rental revenue during the period
b. Any restrictions on the ability to increase rent, collect rental revenue, or collect proceeds on the sale of an investment property
c. Any contractual obligations related to an investment property.

BC56. The Board notes that those disclosures would provide useful information about investment properties and changes in amounts of investment properties during the reporting period. The disclosures also would help users understand the potential cash flows from the properties and the timing of those cash flows.

Effective Date and Transition

BC57. The Board will determine the effective date after it considers the feedback on the proposed amendments. The Board plans to consider the effective dates for the amendments in the proposed Updates on investment companies and leases when determining the effective date for the amendments in this proposed Update.

BC58. The proposed amendments would be effective for interim and annual reporting periods in fiscal years that begin on or after the effective date. The Board decided that early adoption should be prohibited because of concerns about comparability of financial statements of similar entities.

BC59. The Board decided to require an entity to recognize the effect of adopting the proposed amendments as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Board decided not to require retrospective application because it would require determining fair value for prior periods.

Convergence with IFRS

BC60. The Board believes that the proposed amendments would improve comparability between financial statements prepared under U.S. GAAP and financial statements prepared under IFRS for entities (a) in which substantially all of their business activities are investing in a real estate property or properties and (b) that measure their investment properties at fair value. However, differences exist between the accounting guidance in this proposed Update and the accounting guidance in IFRS for investment properties. The IASB has agreed to assess the Board's conclusions and whether there are opportunities to achieve further convergence. Paragraphs BC61–BC74 summarize the significant differences and similarities between the proposed amendments and IFRS.

Scope

BC61. IAS 40 provides an entity with an option to measure all of its investment properties at either fair value or cost. If an entity makes a policy election to measure all of its investment properties at fair value, the entity would evaluate each of its properties to determine if the property qualifies as an investment property. Once all investment properties held by the entity are identified, the entity is required to measure all of its investment properties at fair value.

BC62. The amendments in this proposed Update would require an entity to determine if it meets the criteria to be an investment property entity. If the entity is an investment property entity, each property owned by the entity would be evaluated to determine if it is an investment property. All investment properties held by the entity would be measured at fair value. Accordingly, rather than allowing any entity that holds investment properties to elect to measure all of its investment properties at fair value, the proposed amendments would require an entity that meets the criteria to be an investment property entity to measure its investment properties at fair value.

Definition of Investment Property

BC63. The definition of an investment property in the proposed amendments excludes properties held (a) in the production or supply of goods or services or for administrative purposes or (b) for development to sell in the ordinary course of business upon completion from being considered investment properties. That definition of an investment property is consistent with IAS 40, except that IAS 40 allows an entity to designate part of a building as an investment property, whereas the proposed amendments would require an entity to measure the entire real estate property at fair value if it is determined to be an investment property.

Measurement

BC64. The proposed amendments would require an investment property entity to initially measure its investment properties at transaction price, including any transaction costs. That proposed requirement is similar to IAS 40, which requires investment properties to be initially measured at cost, including any transaction costs, regardless of the measurement basis elected by the entity for subsequent measurement.

BC65. The proposed amendments would require an investment property entity to subsequently measure its investment properties (including right-of-use assets recognized as investment properties) at fair value with all changes in fair value recognized in net income. That requirement is similar to IAS 40, which requires that when an entity elects the fair value model for its investment properties, all of its investment properties (including right-of-use assets held under an operating lease) are subsequently measured at fair value with changes in fair value included in profit and loss. However, IAS 40 provides a practicability exception to fair value measurement for investment properties that cannot be reliably measured, including investment properties under construction. That practicability exception is not provided in the proposed amendments.

BC66. Both the proposed amendments and IFRS require real estate properties other than investment properties to be measured in accordance with other relevant guidance.

Interests in Other Entities

BC67. Under IFRS, an entity's election to measure at fair value its investments in real estate that are investment properties does not affect the requirement for the entity to apply the general consolidation guidance in IFRS 10, *Consolidated Financial Statements,* or the equity method guidance in IAS 28*, Investments in Associates and Joint Ventures.* Accordingly, the entity consolidates an investee when it holds a controlling financial interest in the investee or applies the equity method of accounting when it exercises significant influence over the investee.

BC68. Similarly, the proposed amendments would require an investment property entity to apply the consolidation requirements in Topic 810 to its controlling financial interests in another investment property entity, an investment company as defined in Topic 946, and an operating entity that provides services to the investment property entity. However, an investment property entity would not consolidate other controlling financial interests. Rather, those other controlling financial interests would be measured at fair value with all changes in fair value recognized in net income.

BC69. Also, under the proposed amendments, an investment property entity would apply the equity method of accounting only for an investment in an operating entity that provides services to the investment property entity. The proposed amendments would require an investment property entity to measure all other investments that would otherwise qualify for the equity method of accounting at fair value with all changes in fair value recognized in net income.

BC70. The proposed amendments would require and IFRS requires investments in entities in which the entities do not have a controlling financial interest or cannot exercise significant influence to be measured in accordance with other relevant guidance.

Rental Revenue Recognition

BC71. The proposed amendments would require an investment property entity to recognize rental income on an investment property 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. The fair value of an investment property would include the effects of future rent changes.

BC72. In contrast, IFRS requires rental income on investment properties to be recognized on a straight-line basis over the lease term (unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished) regardless of the measurement model elected for investment properties held by an entity. As a result, an entity that elects the fair value model under IAS 40 would adjust the fair value of an investment property if the fair value amount includes the effects of future rent changes.

Disclosure

BC73. The disclosure requirements in this proposed Update are similar to the requirements for investment properties measured at fair value under IAS 40. The proposed amendments would require an entity to disclose rental income and rental expenses recognized in the financial statements, including any restrictions or contractual obligations.

BC74. In addition, the proposed amendments and IAS 40 require an entity to provide the disclosures required under other applicable guidance (for example, the inputs and assumptions to determine the fair value of investment properties and details related to leases associated with investment properties).

Benefits and Costs

BC75. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC76. The Board does not anticipate that entities would incur significant costs as a result of the proposed amendments because the Board believes that many entities that are affected by the proposed amendments currently measure their real estate properties at fair value either on the face of their financial statements or in the notes to their financial statements. The proposed amendments would provide the benefit of improving consistent application of U.S. GAAP across all entities that would be investment property entities and, therefore, have similar business operations.

BC77. The amendments in this proposed Update also would improve comparability between financial statements prepared under U.S. GAAP and those prepared under IFRS for entities in which substantially all of their business activities are investing in real estate properties and measure their investment properties at fair value. The Board believes that the entities that would be investment property entities by applying the proposed amendments generally would be the types of entities that elect the fair value model under IAS 40.

Alternative View

BC78. Mr. Smith disagrees with the publication of this proposed Update because it maintains the current U.S. GAAP requirement that a parent entity that is not also an investment property entity retains the specialized accounting in Topic 973 if it consolidates an investment property entity. Mr. Smith also disagreed to the publication of the proposed Update on investment companies for the same reason.

BC79. Mr. Smith agrees with the application of the specialized accounting in this proposed Update for entities that would be investment property entities under the proposed scope requirements because he believes that the specialized accounting provides investors in the investment property entity with information that is more relevant to them than what would be available if the investment property entity applied other U.S. GAAP. However, Mr. Smith believes that the specialized accounting fails to be more relevant to investors in a parent entity that is not also an investment property entity that (indirectly) controls investment properties owned by an investment property entity subsidiary. Allowing the parent entity to continue to apply the specialized accounting would result in investment properties being presented differently in the parent entity's financial statements, depending on whether the investment properties are controlled directly by the parent entity or indirectly through the investment property entity subsidiary. Mr. Smith does not believe that presenting those investment properties differently, depending on whether the control of the properties is direct or indirect, is appropriate.

Amendments to the XBRL Taxonomy

Details about changes to the U.S. GAAP Financial Reporting Taxonomy (UGT) that result from amendments to the *FASB Accounting Standards Codification®* will be available on the FASB's website on the ASU Taxonomy Changes page.[1] The FASB will make the following documentation available approximately 30 days after the exposure date of this proposed Update:

1. A separate taxonomy change published in the FASB Taxonomy Online Review and Comment System detailing the changes that will be made to the 2011 UGT as a result of the amendments to the *FASB Accounting Standards Codification®* (as part of the process for issuing the proposed Update)
2. A human-readable XBRL document that exercises the element changes to the taxonomy change and illustrates how those changes may be used to tag the disclosures
3. Release notes that provide a narrative about the changes made to the taxonomy change and how those changes relate to amendments to the *FASB Accounting Standards Codification®*. Release notes also provide quantitative information about the changes made to the taxonomy.

[1]The absolute hyperlink is provided below:
https://www.fasb.org/cs/ContentServer?site=FASB&C=Page&pagename=FASB%2FPage%2FSectionPage&cid=1176158584096.