

BC Consolidated Comments and Recommendations

Question	Para No.	SUBJECT/TITLE [FASB ED 2011-210 Real Estate Investment Property Entities (Topic 973)]	RECOMMENDATIONS/COMMENTS	Name of Commenter	Office	Email Address/Phone
		SCOPE				
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.	Only investment property entities should measure investment properties at fair value. Investment property entities need to re-value properties on a periodic (usually daily) basis so investors can buy and sell shares at the market rate each day. Non-investment property entities will generally want to use historical cost for properties and straight line the cost over the useful life of the asset. Most non-investment property entities hold on to properties until they are fully depreciated and it would not be beneficial or provide added value to re-value properties for an operational environment.	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
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.	Yes, the fair value measurement of investment properties should be required.	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
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?	GSA found the criteria to be vague. Suggest adding a section to 973-10-15-2 that clearly outlines criteria/characteristics that do not meet the investment property entity definition.	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560

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4	<p>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?</p>	<p>The proposed requirement to reassess when there is a change in the purpose and design is appropriate.</p>	<p>Alexis Stowe</p>	<p>OCFO, Office of Financial Policy and Operations</p>	<p>alexis.stowe@gsa.gov / 202-501-0560</p>
5	<p>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.</p>	<p>no comments</p>	<p>Alexis Stowe</p>	<p>OCFO, Office of Financial Policy and Operations</p>	<p>alexis.stowe@gsa.gov / 202-501-0560</p>
<p>Nature of the Business Activities</p>					

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6	<p>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.</p>	no comments	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
7	<p>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?</p>	no comments	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
	Express Business Purpose				

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8	<p>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:</p> <ul style="list-style-type: none"> 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). <p>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.</p>	no comments	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
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9	<p>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.</p>	<p>Operational entities should be excluded from investment entities. Operational entities, more likely than not, will not have exit strategies for its real estate properties because the "intent" is to maintain the property indefinitely. This is very different from an investment entity that is truly looking to realize capital appreciation. The business purpose is very different for these two types of entities.</p>	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
Unit Ownership and Pooling of Funds					
10	<p>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?</p>	<p>Yes, the criterion is appropriate.</p>	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560

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11	<p>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?</p>	no comments	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
Measurement					
12	<p>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?</p>	no comments	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560

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13		<p>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?</p>	<p>An operational entity should have the option of measuring assets at historical cost. For example, if a lessor owns 8,000 assets it would not be practical to reassess all 8,000 assets at fair value each year. Real estate markets can fluctuate from year to year, causing gains and losses, when the operational entity has no exit strategy or plans to dispose of the asset in the foreseeable future.</p>	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
Interests in Other Entities						
14		<p>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?</p>	no comments	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560

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15	<p>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?</p>	no comments	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
16	<p>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?</p>	no comments	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
	Financial Liabilities				

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17	<p>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?</p>	no comments	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
Rental Revenue Recognition					
18	<p>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?</p>	Yes, the proposed method of recognizing rental revenue is appropriate.	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
Practical Expedient for Measurement of an Interest in an Investment Property Entity					

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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.	no comments	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
Disclosure					
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?	no comments	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
Effective Date and Transition					
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?	no comments	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
22	How much time would be necessary to implement the proposed amendments?	GSA recommends 2 years to implement the proposed amendments	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
23	The proposed amendments would prohibit early adoption. Should early adoption be permitted? If yes, why?	Yes, early adoption should be permitted to allow entity to experience the feasibility of the requirement.	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
Nonpublic Entities					

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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?	The proposed amendments should not apply to nonpublic entities since not-for-profit organizations and/or governmental entities are not looking to gain capital appreciation.	Alexis Stowe	OCFO, Office of Financial Policy and Operations	alexis.stowe@gsa.gov / 202-501-0560
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