

February 3, 2012

Ms. Susan M. Cosper, CPA Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Re: Proposed Accounting Standards Update, Real Estate-Investment Properties (Topic 973)

Dear Ms. Cosper:

We appreciate the opportunity afforded to us to offer comments on the above referenced Accounting Standards Update (the "ASU"). The comments we offer are done in the spirit of assisting the Board in arriving at the best possible final standard.

First, some context for our comments, ParenteBeard LLC is a large regional accounting firm headquartered in Philadelphia, Pennsylvania, with operations throughout the Mid-Atlantic Region. We are currently ranked in the top 25 of U.S. accounting firms, with approximately 1,200 team members including 140 partners. Our practice is diverse; we have large concentrations in banking, health care, higher education, manufacturing and distribution and construction. Our practice is primarily privately owned businesses and not for profit organizations, but we do have a large public company practice and are an annually PCAOB inspected firm. Our practice also includes a substantial number of low income housing investment entities as well as many real estate entities established for single purpose leases to related parties.

Our comments are limited to responses to the questions.

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.

Requiring all entities to report their investment properties at fair value would create an undue burden on preparers and auditors without additional perceived benefit for the users of the financial statements. The current model as articulated in ASC 360 is adequate. The fair value measurement should be limited to investment property entities as defined.



Even for investment property entities, the fair value mark will be challenging and add cost for those entities that have not traditionally reported to their users on a fair value basis. We hope that the application of this standard is sufficiently limited by the definition so as to limit the impact to those users that will benefit from fair value information.

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.

While the benefit of comparability among similar entities are many, in this case the fair value option may be a better solution wherein the users of the financial statements or alternatively their regulator (SEC) can require the adoption of fair value. Moreover, for many investors in real estate entities such as REIT's, the more relevant metric is cash flows from operations rather than the incremental fair value change year on year. The perspective and business model of the entity would play a large part in determining whether amortized cost of fair value is the better measurement model. Why not provide the option?

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?

Generally speaking we believe the criteria defining an investment property entity are workable but a couple additional clarifications would be helpful, as follows:

973-10-15-2 (b): Where capital appreciation is discussed, we suggest the following revision: "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; rather than, for example, the realization of tax benefits or for the purpose of accomplishing a social mission such as affordable housing..."

That clarification would clearly scope out the thousands of real estate investment partnerships that were created specifically to facilitate the creation of housing for low income citizens.

973-10-15-2 (b) (1): "The entity's or a related party's (as defined) own use in the production or supply of goods or services or for administrative purposes."

Adding this language would better make the connection with Example 5, which we believe is intended to draw upon the above paragraph when evaluating the express business purpose test.

973-10-15-2 (d): "The entity has investors that are not related to the parent (if there is a parent), or the general partner or creator of the entity and those investors, in aggregate, hold a significant ownership interest in the entity."

Here we believe that only referencing a parent is too limited. If the promoter or organizer of the real estate holding entity is a related party to the investors, this should be reason for not requiring a fair value mark.

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?

This appears to be appropriate and should be operational. However, we suggest clarifying the guidance by requiring the reassessment to be run through the filter provided in 973-10-15-2

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.

We have no view on this question

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.

We believe this guidance should be applicable to entities that only invest in real estate properties. Entities that have a variety of real estate related investments would be better covered by Topic 946.

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?

We agree with this position. We believe there could be significant operational difficulties for the parent entity to obtain sufficient information from equity method investees or variable interest entities, to be able to properly determine how to report or what to report.

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.

Yes, we agree with the proposed scope outs in a and b. We also believe as noted above that the definition of entity should be expanded to include related parties as defined in the ASU.

Question 9: To meet the express-business-purpose criterion, the implementation guidance in this proposed Update would require that an investment property entity have an exit strategy to dispose of its real estate property or properties to realize capital appreciation to maximize total return. An entity that invests in a real estate property or properties to collect rental income long term and does not have an exit strategy for its real estate property or properties would not be an investment property entity under the proposed amendments. Should those entities be excluded from the amendments in this proposed Update? If not, why? Is the exit strategy requirement operational? Please describe any operational concerns.

We agree conceptually with the scope out for lack of exit strategy, but do believe the operational elements may be difficult to apply in practice. What exactly will define an exit strategy or lack thereof? It is possible, that this concept is not really a necessary component of the definition.

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?

The criterion is appropriate but, as noted above, should be expanded to exclude investors related to the promoter or creator of the investment property entity. In example 5 there are situations where H does not meet the definition of "parent" in the ASU, but the entity should be scoped out as the example indicates. The connection from the guidance to this example is not clear enough.

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?

No comment on this question.

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?

We do not believe other entities that do not meet the definition of investment property entities should be permitted to mark their "investment property" to fair value. Here we believe the lack of comparability that may develop among a variety of industries would be detrimental to the user. The current model for commercial entities and property held for sale is well understood. The potential for distortion of P&L from adjustments unrelated to the core business activities outweighs any perceived benefits of the fair value mark.

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?

No comment on this question.

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?

No comment on this question.

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?

No comment on this question.

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?

No comment on this question.

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?

We agree with the requirement to measure liabilities based on other U.S. GAAP. Requiring a fair value measurement of related liabilities would not be beneficial for users and would create significant costs. Unlike financial assets and liabilities which are sometime managed together and for which fair value asset marks create mismatches, the fair value changes in investment property has less relation to interest rate changes than do the liabilities.

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?

We agree with this position

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.

We agree with this position.

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?

No comment on this question.

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?

We agree with this position.

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

We suggest that for public companies the effective date should be two years from adoption and for non-public entities an additional year would be appropriate. We believe there will be significant implementation hurdles to put into place requiring appraisal mechanisms for entities that are required to adopt fair value. In addition there will be the need for adequate ICFR to be put into place. Auditing firms will also need time to adjust methodologies appropriately for increased fair value measurements to audit.

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

We agree.

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?

We have noted several instances above where the guidance can be modified to scope out a significant number of nonpublic entities. We believe this is more appropriate than a blanket exclusion from the standards.

Thank you for the opportunity to submit these comments. We look forward to the Board's consideration and future issuance of this important guidance.

Sincerely.

Philip J. Sahtarelli, CPA

Chief Risk Officer