## Financial Accounting Standards Board

**Proposed Accounting Standards Update, *Real Estate—Investment Property Entities (Topic 973)***

**Feedback Summary**

### Introduction

1. On October 21, 2011, the Financial Accounting Standards Board (FASB) issued proposed Accounting Standards Update, *Real Estate—Investment Property Entities (Topic 973)*. The Board and staff received feedback through comment letters, a public roundtable meeting, and in-person meetings or conference calls with constituent groups including preparers, auditors, users, valuation specialists, and regulators.

2. The comment period for the Exposure Draft ended on February 15, 2012. As of May 22, 2012, 80 comment letters were received and posted to the FASB website. The following table provides demographic statistics on the comment letters received:

| Type of Respondent | Number |
|---|---|
| **Preparers** | **38** |
| **Accounting firms and associations** | **18** |
| **Users** | **6** |
| **Industry associations** | **13** |
| **Others** | **5** |
| **Total** | **80** |

3. The Board held one public roundtable meeting with 18 participants to discuss the Exposure Draft. Board members and staff also participated in numerous in-person meetings or conference calls, on a confidential basis, to discuss the Exposure Draft. The Board members and staff received feedback from approximately 15 users, including pension funds, endowment funds, and analysts, through these discussions.

4. This document provides a summary of significant feedback received on the Exposure Draft and is organized as follows:

   a. Overall Comments

   b. Scope and Criteria to Be an Investment Property Entity

   c. Definition of Investment Property

   d. Measurement

   e. Interests in Other Entities

   f. Revenue Recognition

   g. Disclosure

   h. Net Asset Value Per Share Practical Expedient

   i. Reassessment of Investment Property Entity Status

   j. Transition and Effective Date.

5. The feedback is disaggregated by feedback received from users and feedback received from other constituents in areas in which user views differed from views expressed by all other constituents, including preparers, auditors, and regulators.

6. Almost all constituents agreed that the proposed amendments should apply to both public as well as nonpublic entities. As such, feedback received from nonpublic entities was generally consistent with feedback received from public entities. The feedback received from nonpublic entities is disaggregated where those views differed from views expressed by public entities.

## Overall Comments

### *Form of the guidance*

7. Most constituents commented on the form of accounting guidance for investment properties. The majority of those constituents did not support the Exposure Draft in

its current form. Those constituents stated that a separate investment property entity concept should not be developed.

8. Many constituents stated that all entities should either be required to or provided an option to measure investment properties at fair value with all changes in fair value recognized in net income. Those constituents stated that the determination of whether investment property is measured at fair value should not be based on the nature of the entity investing in the property.

9. Some constituents commented that an entity that focuses on investing in real estate properties should assess the criteria to be an investment company. If the entity is an investment company, those constituents stated that the entity should measure its investments (including real estate properties) at fair value with all changes in fair value recognized in net income. Those constituents stated that the form of the entity (real estate investment trust versus real estate fund) or the type of investments held by the entity should not be a factor to determine whether the entity should be required to measure its investments at fair value through net income.

10. Many constituents commented on the complexity in applying the guidance in this Exposure Draft and the proposed Accounting Standards Update, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*, to determine whether an entity is an investment property entity, an investment company, or neither. Some of those constituents expressed concerns that because of the differences in proposed criteria in this Exposure Draft and the Exposure Draft on investment companies, many real estate entities would not meet either set of criteria and, therefore, would not be required to measure their investment properties at fair value.

11. Some constituents, however, supported a separate investment property entity concept in addition to the concept of an investment company and agree with the Board's reasons in the Basis for Conclusions for developing the investment property entity concept.

*User Feedback*

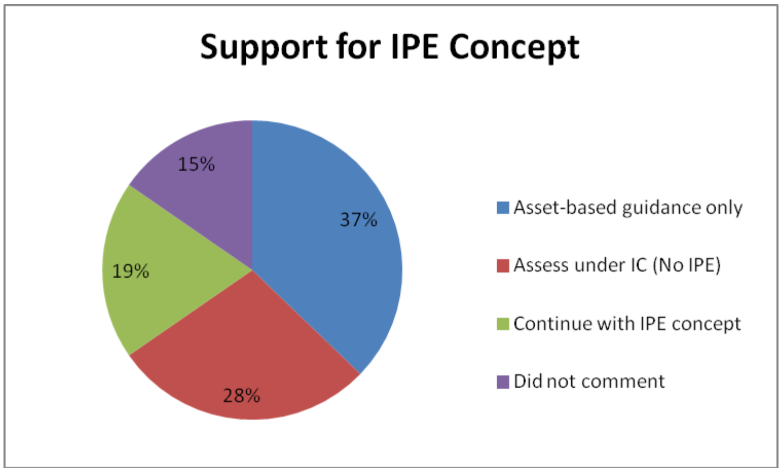
12. User views were as mixed as views of nonusers regarding the form of fair value measurement guidance for investment properties. However, regardless of whether users agreed with the investment property entity concept or whether they stated that real estate entities should assess investment company criteria, most users stated that the Board also should develop asset-based investment property guidance for entities that are not investment companies or investment property entities.

13. The majority of equity real estate investment trust (REIT) analysts stated that fair value of real estate properties is very subjective and would prefer that it is disclosed in the notes to the financial statements. Those analysts added that amortized cost measurement, including impairment and cash flow information, is more useful in analyzing equity REIT investments. Those analysts stated that in particular, undeveloped land should be measured at cost because there are no cash flows associated with undeveloped land for them to compare the entity's fair value estimate with their fair value estimate.

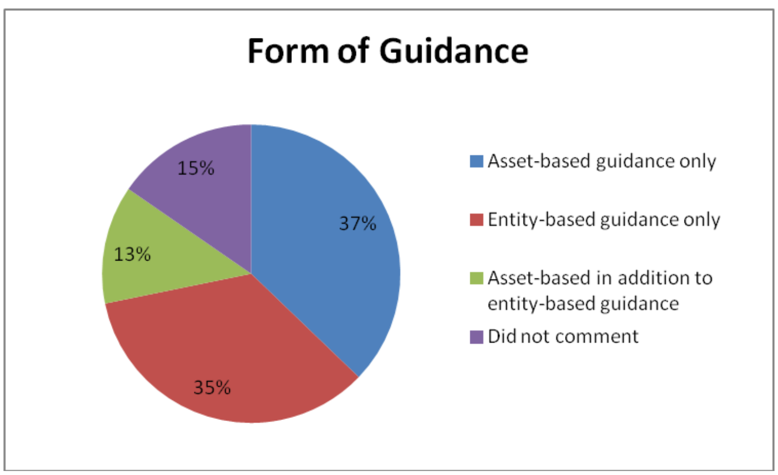
*Statistics*

14. The charts below provide statistics for feedback received on the form of the guidance for investment properties.

15. The first chart below illustrates constituent support for the investment property entity concept. The chart indicates that only 19 percent of constituents supported the investment property entity concept. The remainder of constituents that provided feedback on this aspect of the proposal recommended that the Board develop asset-based guidance or require a real estate entity to assess investment company criteria.

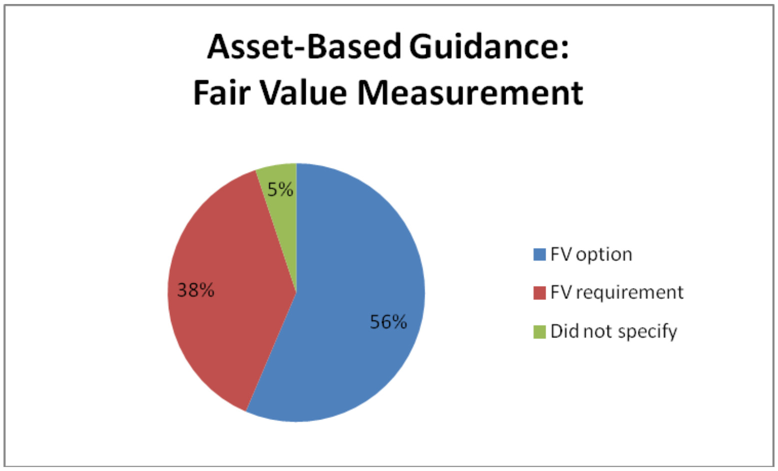



16. Some constituents stated that in addition to entity-based guidance (either in the form of investment property entity or investment company guidance), the Board should also develop asset-based guidance for investment properties. The chart below illustrates the views of constituents regarding the form of guidance for investment properties. This chart indicates that 50 percent of constituents supported developing asset-based guidance for investment properties.




17. Most of the constituents that recommended that the Board develop asset-based guidance also provided feedback on whether fair value measurement should be a requirement or an option. The following chart illustrates views of constituents regarding fair value measurement under an asset-based approach. The chart indicates that the majority of those constituents recommend a fair value option for investment property, similar to the guidance in IAS 40, *Investment Property*. Those constituents stated that an option would allow entities to better align their accounting models with

their business objectives, which would produce more meaningful information for investors. Other constituents stated that fair value is the most relevant measurement when a real estate property is held for investment purposes and, therefore, fair value should be required for all investment properties held by any entity. Those constituents also raise comparability concerns with options in accounting guidance.




***Interaction with the leases project***

18. Many constituents highlighted the interaction between the Exposure Draft and decisions made in the joint project on leases. Many constituents agreed that lessors measuring investment property at fair value should not be subject to the tentative lessor accounting model being developed in the joint project on leases. Some constituents questioned whether the proposed guidance on investment property entities was necessary in light of recent decisions made on the joint leases project to exclude lessors of investment property from the tentative lessor accounting model developed by the Boards. Other constituents stated that they cannot fully evaluate the Exposure Draft prior to the completion of deliberations on the joint leases project.

***Convergence***

19. Many constituents stated that the Exposure Draft does not further convergence efforts and, therefore, reduces comparability for users of financial statements. In particular, those constituents noted that IAS 40 contains an asset-based approach in

which all entities are provided an option to measure their investment properties at fair value or cost. In contrast, the Exposure Draft proposes an entity-based approach, which would require only investment property entities to measure their investment properties at fair value. Some constituents also stated that they are unsure whether the entities that would elect the fair value model under IAS 40 would be the entities that would meet the criteria to be investment property entities under the proposal because of concerns regarding specific criteria proposed in the Exposure Draft and differences in the definition of *investment property* between the Exposure Draft and IAS 40.

## Scope and Criteria to Be an Investment Property Entity

20. The guidance in the Exposure Draft would require an entity to meet the following five criteria to be an investment property entity.

    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. 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.

21. Some constituents commented that the proposed criteria would capture the appropriate population of investment property entities. In contrast, some constituents stated that the requirement to meet all five proposed criteria is too strict and rules based.

22. Other constituents (mostly nonusers) raised concerns about aspects of the proposed criteria that may inappropriately include or exclude certain entities from being investment property entities. The remainder of this section summarizes feedback on specific proposed criteria.

### *Nature of the Business Activities*

23. Most constituents raised concerns with the nature of the business activities criterion, stating that it is too restrictive and would not capture the real estate entities that the Board intended to capture as investment property entities.

24. Many constituents stated that the *substantially all* threshold is too high, especially in combination with the requirement to hold only real estate properties. Those constituents stated that a very small change in activities or types of investments held would cause entities to flip in and out of investment property entity status, which would prevent the entity from providing fair value information to users. Some constituents requested that the Board define *substantially all*, including whether the determination should be based on total assets or revenues.

25. Some constituents also requested that the Board provide additional implementation guidance to clarify the types of activities that would be not be consistent with buying, selling, and managing real estate properties. For example, many constituents

raised concerns that hotel investments would preclude an entity from being an investment property entity because the entity may be providing ancillary services.

*Type of real estate investments*

26. Implementation guidance for the nature of the business activities criterion would require an investment property entity to hold real estate properties directly or indirectly through a controlling financial interest in an entity that has the same business activities and business purpose.

27. Most constituents disagreed that an investment property entity should be limited to investing in real estate properties, directly or indirectly through controlling financial interests in a similar entity. Those constituents stated that it is very common for real estate entities to diversify their exposure to real estate by holding a variety of real estate related investments such as mortgage receivables, real estate securities, and interests in joint ventures. Those constituents are concerned that the proposed requirement is too restrictive and would create operational challenges because an entity would need to constantly monitor its real estate portfolio to meet the criterion, which would result in an entity frequently reassessing investment property entity status.

28. Further, some of those constituents stated that the criterion limits an entity's ability to take advantage of real estate investments that offer lucrative returns to its investors. Those constituents argue that regardless of the type of real estate investment, the business purpose is still the same and investors are most interested in fair value information about those investments.

29. A few constituents asked that the Board clarify whether timber and agricultural property would be considered investments in real estate property to meet the nature of business activities criterion.

30. Some constituents agreed with the limitation to invest in real estate properties, directly or indirectly through controlling financial interests in a similar entity. These constituents agreed with the Board's reasons in the Basis of Conclusions that entities that hold a variety of real estate related investments should apply other applicable

U.S. generally accepted accounting principles (GAAP), including investment companies guidance.

### *Express Business Purpose*

31. Most constituents generally agreed with the express business purpose criterion. However, many constituents questioned the proposed exit strategy requirement to meet the criterion.

32. Also, some constituents expressed concerns that the proposed exclusion of properties developed for sale in the ordinary course of business upon completion would restrict the ability of opportunistic or value-added real estate funds to be investment property entities because of their focus on buying assets that are distressed or in need of redevelopment for sale in the future.

#### *Exit strategy requirement*

33. Implementation guidance in the Exposure Draft would require an investment property entity to have an exit strategy to dispose of its properties to realize capital appreciation. Many constituents, including nonpublic entities, stated that requiring an entity to have an exit strategy could result in many real estate companies not being investment property entities. Those constituents stated that real estate entities maximize total return, including capital appreciation through various avenues other than sale of the property, such as collecting rental income long term, contributing assets into a joint venture, and property financing. Some of those constituents highlighted that many REITs may not have exit strategies because tax rules restrict turnover and that some real estate funds may not have exit strategies because they have a limited life and plan to sell only at liquidation.

34. Further, some of those constituents disagree that fair value information is not relevant for real estate properties held for rental income only. Those constituents stated that an entity would sell the properties if market conditions were favorable. Those constituents noted that the definition of *investment property* under IAS 40 includes land or buildings held only for rental income purposes.

35. Some constituents stated that an explicit sales plan, such as documentation in offering memorandums and marketing materials, should not be required. Those constituents added that an exit strategy is continually contemplated, but not necessarily dated or specifically planned and not necessarily defined in the fund's organizational documents. Some constituents commented that the exit strategy requirement as proposed may result in an implicit option in which an entity could elect investment property entity status.

36. A few other constituents agree with the exit strategy requirement. Those constituents stated that investors in entities that hold property for rental income understand that their investment returns are not generated through property sales and are, therefore, more interested in metrics such as operating income and funds from operations than fair value estimates.

***Pooling of Funds***

37. Concerns raised regarding the pooling of funds criterion in the Exposure Draft were generally consistent with feedback received on that criterion in the Exposure Draft on investment companies. Feedback received on the Exposure Draft on investment companies is available on the Investment Companies project page.

38. Different from the Exposure Draft on investment companies, the Exposure Draft on investment property entities would provide an exemption from meeting the pooling of funds and unit ownership criteria. The Exposure Draft states that a subsidiary entity whose parent entity (a) is required to account for its investments at fair value in accordance with U.S. GAAP or (b) 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.

39. Most constituents agreed with the exemption. Many constituents recommended that the exemption be expanded to include parent entities that measure substantially all of their investments at fair value to incorporate investment banks and insurance companies that invest in real estate entities.

40. Some constituents disagreed with the exemption because they stated that pooling of funds and unit ownership should not be required criteria to be an investment property entity or because they disagree with an entity-based approach to providing investment property guidance.

## Definition of Investment Property

41. The Exposure Draft defines *investment property* as follows:

> 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.

42. Only a few constituents commented on the definition of investment property. Those constituents requested clarifications regarding the application of the definition to the following:

    a. Properties used for multiple purposes, such as a building in which some floors are held for own use and the remaining floors are leased to third parties for rental income.

    b. Hotels and other similar properties that may provide services other than renting space. Some may consider the land, building, and integral equipment of a hotel to be for the entity's own use to provide a service, while others may see such properties as being investment property because the primary service is the renting of space.

    c. Cell towers, satellites, telecommunication cables, transportation assets, and other items that may qualify as integral equipment.

## Measurement

***Operationality of Fair Value Measurement of Investment Property***

43. Many constituents stated that fair value measurement of real estate properties is operational because market information is easily available and many valuation specialists exist today to assist in valuation. However, some of those constituents requested the following clarifications:

    a. Whether an internal valuation would be permitted or whether use of an external valuation specialist would be required

    b. How often an external valuation would be required.

44. Some constituents raised concerns about the operationality of fair value measurement for real estate properties. Those constituents stated that entities that currently do not measure real estate properties at fair value (such as equity REITs) and therefore do not have the infrastructure to perform those valuations would incur significant costs to measure real estate properties at fair value. Some constituents stated that the costs outweigh the benefits of fair value measurement for real estate properties held by small REITs or single investment entities because users of those entities focus on cash flow information and do not require fair value. One constituent questioned the need for fair value measurement of affordable housing partnerships, stating that the costs to estimate fair value would be inconsistent with the purpose of investing in such entities only for tax benefits.

45. Some constituents recommended that the Board provide a practicability exception to fair value measurement for an investment property under construction because they stated that fair value measurement during construction does not result in useful information when compared to construction costs. They added that users are more interested in the projected cost to complete and the estimated completion date rather than in the fair value at each reporting period during construction.

46. One of those constituents, representing nonpublic company interests, recommended that during the construction phase, an investment property entity should be required to provide fair value measurements at each reporting date for investment property

under construction unless the entity's financial statement users waive the requirement for the intermediate valuations. That constituent argued that intermediate valuations would be onerous and unnecessary for the smaller, shorter term projects involving one lender in areas in which demand is low and market fluctuations tend to be small. However, that constituent added that immediate valuations may be necessary for large, complex projects involving multiple lenders, equity financing, or a volatile real estate market.

### *Right-of-Use Assets*

47. The Exposure Draft would require a right-of-use asset to be recognized as an investment property and measured at fair value if the underlying asset meets the definition of an investment property under the Exposure Draft. The Exposure Draft defines a right-of-use asset as "an asset that represents the lessee's right to use the underlying asset for the lease term."

48. Most constituents agreed with the proposed guidance for right-of-use assets, stating that a right-of-use asset would be transferred with the investment property when sold and, therefore, fair value would provide meaningful information to users.

49. Many constituents, however, requested clarification of the relationship between the proposed guidance and the tentative lease accounting model developed by the Board in the joint leases project. Some of those constituents do not agree that the concept of right-of-use assets developed under the joint leases project is relevant under a fair value measurement model. Further, some constituents stated that right-of-use assets should not be recognized as investment property.

### *Other Assets*

50. The Exposure Draft would require an investment property entity to measure other assets, including financial assets and real estate properties that are not investment properties in accordance with other applicable U.S. GAAP.

51. Most constituents agreed that other assets held by an investment property entity should be measured in accordance with other U.S. GAAP because those investments should be insignificant to the entity and amending measurement guidance for those investments would be outside the scope of this project.

52. Some constituents stated that all assets held by an investment property entity should be measured at fair value because investors are most interested in full fair value based net asset value for the entity. Some of those constituents stated that the accounting for all assets held by an investment property entity should be consistent with that of an investment company because both entities are investing entities. One of those constituents (a user) recommended that if the Board decides to continue to allow cost measurement for other assets, fair value should be parenthetically presented on the balance sheet.

***Financial Liabilities***

53. The Exposure Draft would require an investment property entity to measure financial liabilities (such as own debt) in accordance with other U.S. GAAP, which requires amortized cost measurement unless the fair value option in Topic 825, Financial Instruments, is elected.

54. Views regarding fair value measurement of financial liabilities held by an investment property entity were split. Many constituents agreed that debt should be measured at cost but urged the Board to retain the fair value option for accounting mismatches and nonrecourse debt secured by investment property. Some constituents stated that the accounting for debt held by an investment property entity should be consistent with that of an investment company because both entities are investing entities. Those constituents noted that investment companies generally measure their debt at cost. Some constituents also stated that debt should be measured at cost because that is the amount at which the liability will ultimately be settled.

55. Other constituents noted that financial liabilities held by an investment property entity should be measured at fair value, especially nonrecourse debt that is secured by real estate property. Those constituents stated that investment property entities

must have substantially all of their assets invested in real estate. Therefore, most of the debt should be secured directly or indirectly by the real estate investment assets that would be measured at fair value. Measuring financial liabilities associated with such real estate investments at fair value would provide users with the most decision-useful information because an investor would be willing to pay more to invest in an enterprise that has secured fixed-rate financing at below current market rates. One of those constituents stated that fair value measurement of financial liabilities should be required rather than an option because of comparability concerns.

## Interests in Other Entities

### *Controlling Financial Interests*

56. The proposed amendments in the Exposure Draft would require an investment property entity to consolidate controlling financial interests in the following entities:

    a. Another investment property entity

    b. An investment company as defined in Topic 946, Financial Services—Investment Companies

    c. An operating entity that provides services to the investment property entity.

57. Almost all constituents agreed that an investment property entity should not consolidate controlling financial interests in an operating entity, unless that entity provides services to the investment property entity. Feedback was mixed regarding consolidation of controlling financial interests in another investment property entity or investment company.

58. Some constituents agreed with the Board's basis and proposed requirement to consolidate controlling financial interests in another investment property entity or an investment company.

59. Some constituents stated that controlling financial interests in another investment property entity or an investment company should be consolidated only in certain circumstances. A few constituents stated that consolidation is appropriate when the

investment property entity subsidiary or investment company subsidiary is wholly owned because concerns with presentation of amounts attributable to noncontrolling interests would not be relevant.

60. Some constituents stated that an investment property entity should not be required to consolidate an investment company because investments in investment companies should be insignificant to an investment property entity's portfolio to meet the nature of the business activities criterion. Implementation guidance for the nature of the business activities criterion states that substantially all of an investment property entity's business activities should be investing in real estate properties, directly or through controlling financial interests in another entity that has the same business activities and business purpose. Those constituents stated that consolidation of an insignificant investment would obscure the financial statements.

61. Other constituents did not support consolidation of controlling financial interests in another investment property entity or investment company. Those constituents raised the following significant concerns:

    a. The financial statements would include noncontrolling interests that are confusing to investors in real estate funds. The inclusion of noncontrolling interests obscures the net asset value of the fund, which is the most important data point for an investor in a real estate fund because of the purpose and nature of the entity.

    b. Consolidation of investments in investment property entities or investment companies may create a reporting perception that the assets are direct investments of the reporting entity when they are not.

    c. The financial statements would include nonrecourse debt obligations that are not relevant at the fund level. The inclusion of nonrecourse debt obscures the debt obligations of the fund versus the properties held, which would not be useful if an investor is interested in the actual leverage and risk of their investment in the fund.

*Equity Method Investments*

62. The Exposure Draft would require an investment property entity to measure interests in entities over which it can exercise significant influence at fair value rather than apply the equity method of accounting, unless the investee is an operating entity that provides services to the investment property entity.

63. Most constituents agreed with the proposal regarding the accounting of interests in entities over which the investment property entity can exercise significant influence, stating that fair value measurement for those interests would provide more meaningful information to users of financial statements. One user recommended that an interest in an operating entity that provides services to the investment property entity also should be measured at fair value.

64. Some constituents recommended that an investment property entity should be permitted to separately present in net income its share of an investee's operating income, with any remaining change in fair value reported as unrealized gain or loss on the investment. Those constituents stated that this presentation alternative would enable investors to distinguish between operating income from consolidated investment property entities and the investment property entity's share of operating income from noncontrolling interests in joint ventures and other investees in which the investment property entity has significant influence.

65. Some constituents (all nonusers) disagreed with the proposed equity method guidance. Some of those constituents stated that joint ventures are common in the real estate industry and that eliminating the equity method of accounting would result in the loss of information on how those investments are performing because the entity would not be allowed to pick up its portion of the operating results of the investee. Some of those constituents also stated that the proposed elimination of the equity method of accounting is conceptually inconsistent with the proposed requirement to consolidate controlling financial interests in another investment property entity or in an investment company.

## Rental Revenue Recognition

66. The Exposure Draft would require an investment property entity to recognize revenue from a lease of an investment property when lease payments are received or as the payments become receivable in accordance with the lease terms.

67. Most constituents agreed with the proposed rental revenue recognition guidance and the Board's basis that recognizing rental revenue on a contractual basis would be consistent with fair value measurement. However, some constituents stated that rental revenue should only be recognized as it becomes receivable according to the contractual terms of the lease and should not be recognized when received because such an approach would recognize rental revenue on a cash basis and could lead to front loading of rent.

68. A few constituents disagreed with the proposed rental revenue recognition guidance. Some of those constituents stated that the proposed guidance is inconsistent with IAS 40, which would generally require rental revenue to be recognized on a straight line basis. Further, those constituents said that rental revenue recognition should be aligned with the proposed leases guidance so that the same economic transaction is not differentiated based on whether the underlying property is owned by an investment property entity.

69. Other constituents questioned the relevance of rental revenue recognition guidance when the investment property is measured at fair value through net income.

## Presentation

70. The Exposure Draft would require an investment property entity to separately present the fair value of investment properties held and any debt. The Exposure Draft also would require an investment property entity to separately present rental revenue and rental operating expenses from investment properties.

71. Users agreed with the proposed presentation requirements. One user stated that debt secured by investment property should be separately presented from other debt.

Users noted that rental revenue and rental expenses should be separately presented because they are important factors when evaluating an entity that focuses on investing in real estate.

72. Some constituents (nonusers) expressed concern with the proposed requirement to separately present rental revenue and rental expenses. Some of those constituents stated that such information is more useful property by property rather than on an aggregated basis. Those constituents stated that they provide property-by-property operating information and valuations on a quarterly basis. Other constituents stated that providing such information is not useful to investors in their real estate funds. Those constituents stated that their investors are primarily interested in the fair value of the fund's real estate investments because the funds usually have a limited life and the real estate investments are sold at the end of that life.

## Disclosure

73. The Exposure Draft would require that an investment property entity disclose 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 those that did not

    b. Any restrictions on the ability to increase rent, collect rental revenue, or collect proceeds on the sale of the property

    c. Any contractual obligations related to an investment property.

74. Many constituents agreed with the proposed disclosure requirements. However, some constituents questioned the rationale for differentiating between investment properties that generated rental revenue during the period and those that did not when providing disclosures about direct operating expenses.

75. Some constituents stated that restrictions on rent are very common, such as rent steps, rent control in multi-family environments, and collection issues. Those

constituents noted that disclosure about restrictions on the ability to increase rent and collect rental revenue should not be required. In addition, those constituents highlighted that IAS 40 does not require such disclosures.

76. Some constituents stated that many contractual obligations, such as maintenance and cleaning, are entered into in the normal course of managing and operating investment property, and should not be required to be disclosed in the notes to financial statements. In addition, those constituents highlighted that IAS 40 requires disclosures of specific contractual obligations, which would not include those that arise in the normal course of business.

77. Some constituents, mostly users and valuation specialists, recommended that the Board require the following additional disclosures:

    a. Whether or not the fair value of investment property is based on a valuation by a qualified, independent valuation professional

    b. Any significant adjustments to an external valuation

    c. A reconciliation of the carrying amount for investment property from the beginning of the period to the end of the period.

## Net Asset Value Per Share Practical Expedient

78. The Exposure Draft would allow an investor in an investment property entity to use net asset value per share as a practical expedient to estimate the fair value of its investment if the investor would transact at net asset value per share and the investment does not have a readily determinable fair value.

79. Most constituents agreed that the net asset value per share practical expedient should be permitted to estimate the fair value of an investment in an investment property entity. However, some constituents questioned the requirement that the investor would transact at net asset value per share. Those constituents raised concerns that the net asset value practical expedient would not be available for investments in private equity real estate funds in which those funds do not stand ready to transact

with their investors and interests are not redeemable at net asset value until liquidation, although substantially all of the underlying investments are measured at fair value. Further, those constituents noted that the proposed requirement is inconsistent with the practical expedient for investments in an investment company, which does not require the investor to transact at net asset value per share with the investment company.

80. Some constituents questioned whether the net asset value per share practical expedient should be available to interests in an investment property entity because an investment property entity may have noninvestment property and financial liabilities measured at cost.

## Reassessment of Investment Property Entity Status

81. The guidance in the Exposure Draft 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.

82. Almost all constituents agreed with the proposed reassessment guidance and stated that a change in status should be rare. Some of those constituents requested additional guidance or examples to determine which types of changes would qualify as reconsideration events to ensure consistent application.

## Transition and Effective Date

83. The proposed amendments in the Exposure Draft would be effective for an entity's interim and annual reporting periods in fiscal years that begin after the effective date. Earlier application would be prohibited.

84. An entity that meets the criteria to be an investment property entity as a result of the proposed amendments would recognize a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

### *Transition Requirements*

85. Most constituents, including most users, agreed with the proposed transition requirements. A few constituents, including one user, recommended that retrospective application should be required to enable trend analysis. Retrospective application also would allow investors to evaluate the impact of new guidance on periods previously reported under prior guidance.

### *Time to Implement*

86. Most constituents stated that at least one year and up to two years would be necessary to implement the proposed amendments. Some of those constituents stated that the effective date of the guidance should be aligned with final guidance issued through the investment companies, consolidation, and leases projects.

87. Some nonpublic constituents stated that nonpublic entities should be provided with an additional year to implement the proposed amendments. Further, those constituents stated that interim periods should be excluded during the initial year of adoption for nonpublic entities.

### *Early Adoption*

88. Constituents had mixed views regarding early adoption. Many constituents agreed that early adoption should be prohibited because of comparability concerns. Other constituents stated that early adoption should be permitted when management determines that adoption would improve the information provided to users of their financial statements.