MINUTES

Financial Accounting Standards Board

Subject:	March 16, 2012, Investment Property Entities Roundtable Meeting Minutes	**Date:**	November 15, 2012

<u>Topic</u>:	Proposed Accounting Standards Update: *Real Estate—Investment Property Entities (Topic 973)*
<u>Length of Discussion</u>:	11:10 AM to 12:30 PM (EDT)

<u>Attendance</u>:

Outside Participants

Pat Bailey	CRE Finance Council
Thomas Conway	GE Asset Management
Robert Fabio	AICPA
Brad Farrell	Two Harbors Investment Corp.
Craig Goodman	New York State Society of CPA's
Michael Hedden	Appraisal Institute
Robert Hitchings	Bank of New York Mellon Corporation
Mark Mahar	Ernst & Young
Paul Nungester	Health Care REIT
Judith O'Dell	Private Company Financial Reporting Committee
Melanie Pinto	SIFMA
Mohini Singh	CFA Institute
Kathleen Skero	Blackstone Group
Israel Snow	Goldman Sachs
Annette Spicker	PricewaterhouseCoopers
Jim Strezewski	REIS / NCREIF
Austin Wachter	TIAA-CREF
David Wolff	Taubman Center, Inc.
George Yungmann	NAREIT

Participating Observers

Paul Beswick	U.S. Securities and Exchange Commission
Jaime Eichen	U.S. Securities and Exchange Commission

FASB Participants

Leslie Seidman	Chairman
Daryl Buck	Board Member
Russ Golden	Board Member
Hal Schroeder	Board Member
Marc Siegel	Board Member
Larry Smith	Board Member
Susan Cosper	Technical Director
Kevin Stoklosa	Assistant Director
Upaasna Laungani	Project Manager
Chandy Smith	Senior Investor Liaison

IASB Participants

Patrick Finnegan	Board Member
Darrel Scott	Board Member
Alan Teixeira	Senior Director, Technical Activities
Michael Stewart	Director of Implementation Activities
Sarah Geisman	Assistant Technical Manager

The Investment Property Entity Concept and Fair Value Measurement of Investment Property

Participant views on the investment-property-entity concept were mixed. Most participants disagreed with the concept, but a few agreed that investment property guidance should be entity based. Those participants stated that the fair value measurement of real estate is most relevant for investment property held by investment entities.

Some participants agreed with entity-based guidance for investment property, but stated that the fair value measurement outcome should be achieved through amendments to investment company guidance. Particularly, real estate fund participants support a full fair value net asset value and stated that investment company guidance would promote comparability. Real Estate Investment Trusts (REIT) representatives did not support defining all real estate investment entities as investment companies. Those participants argued that investors in REITs have different information needs than investors in real estate funds. REIT participants are concerned that cash flow and impairment information currently provided in REIT financial statements would be lost if REITs applied investment company guidance, which would result in increased disclosures and the use of unaudited supplements.

Participants that did not support the investment property entity concept noted that it is not convergent with the treatment of investment property under International Financial Reporting Standards (IFRS), which provide asset-based guidance. Many participants raised concerns about comparability that could lead to a disadvantage for U.S. real estate entities. Those participants recommended that the FASB should develop asset-based guidance for investment property because fair value measurement is relevant for investment property regardless of the type of entity that holds the investment property. Some of those participants stated that the asset-based guidance should provide a fair value option similar to that in IAS 40, *Investment Property*. Those participants stated that such an approach would allow entities to measure their real estate properties consistent with how they are managed.

Participants representing the REIT industry stated that over 90 percent of publicly traded REITs elect the fair value model under IAS 40. Furthermore, they noted that IAS 40 requires fair value information in the notes to the financial statements when the cost model is elected. One participant argued that the fact that most companies elect fair value is an indication that fair value is the most relevant metric for investment property.

One participant stated that users such as lenders and charities obtain their own appraisals if they require fair value information for real estate properties held by an entity. Another participant argued that if fair value information for real estate property is important, management should provide its estimate and it should be included in the financial statements.

Presentation of Investment Property Related Items

Participants had mixed views on whether investment property related items (such as debt, rental income, and rental expenses) should be separately presented on the financial statements. Participants stated that gross presentation of rental income and rental expenses is not relevant for real estate opportunity funds because those funds are focused on value growth rather than returns from an income stream.

Many participants supported gross presentation of rental income and rental expenses. Some of those participants stated that gross presentation provides information for investors to evaluate management’s valuation estimates. Participants stated that for REITs, rental income and rental expense information is very important because REIT investors are most concerned about cash flows and yield. Participants noted again that investor needs differ between real estate funds and REITs.

Some participants supported the separate presentation of debt associated with investment property. Those participants noted that the debt also should be measured at fair value.

One participant stated that gross versus net presentation of investment-property-related items should depend on whether or not the entity is an investment company. That participant said that an investment company should not be required to separately present property-related items. However, if an entity is considered a real estate operating company (rather than an investment company), property-related income and expenses become more relevant and should be separately presented.