



February 7, 2012

Leslie Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2011-210

Dear Chairman Seidman,

The Committee on Corporate Reporting (CCR) of Financial Executives International ("FEI") is writing to share its views on the proposed FASB Accounting Standards Update (ASU), "Real Estate—Investment Property Entities (Topic 973)". CCR fully supports the proposed ASU and believes that the scope of the proposed standard correctly identifies entities for which fair value recognition and measurement is relevant to investors and appropriately excludes those entities where it is not.

FEI is a leading international organization of senior financial executives. Through its Committee on Corporate Reporting, the senior technical committee of FEI, we review and respond to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and not necessarily the views its members individually.

CCR wishes to acknowledge the significant research and outreach efforts conducted by the Board and Staff leading up to the issuance of the proposed ASU. Through those efforts, differences were identified between the needs of investors in real estate investment trusts and other similar reporting entities compared with industrial and financial services entities that do not invest substantially all of their funds in real estate. With the Board's proposed scope, investors in REITs, real estate opportunity funds and other similar entities will be provided with financial results based on fair value consistent with their investment objectives. Investors in entities that happen to own real estate that otherwise meets the definition of investment property will continue to get financial information about those assets based on current GAAP for owned real estate.

While the Board may hear from some constituents requesting a single model for investment properties to be applied by all entities, we observe that the investor considerations are not dissimilar to those underlying a comprehensive fair value requirement for all financial instruments, which the Board has learned through extensive outreach that investors did not support. If investors do not believe that fair value through earnings is appropriate for financial instruments held by entities that do not actively trade them as part of their business activities, it would seem that real estate investments, which are more difficult to value, would yield even less relevant and reliable financial

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information in similar circumstances. We therefore would expect that the Board would reach a similar conclusion on recognition and measurement for these assets.

In the event that the Board decides to give further consideration abandoning the proposed ASU's entity-based scope, we believe that it is important to consider that determining fair value for investment properties would be operationally costly and complex for most companies to implement, particularly during the abbreviated reporting cycles typical for interim reporting. We also believe that such costs would be incurred for no apparent reporting benefit for investors in those companies that do not invest substantially all of their funds in real estate. To illustrate that point, consider the following fact pattern:

An industrial entity downsizes its large company-owned headquarters operation by outsourcing some activities and distributing other work to its divisions. After the reorganization, it occupies roughly 20% of the building. Because the headquarters facility is in a very good location, the company intends to continue to own the building for the foreseeable future and lease the unoccupied space to third party tenants.

We do not believe that investors in that entity wish to see the property marked to fair value through earnings each reporting period. If, at some point in the future, the company were to decide to relocate the headquarters and sell the building, the facility would be categorized as assets held for sale (lower of cost or fair value) and would provide additional information to investors to help them understand the likely effect on its future cash inflows. We believe that only at the point in which the reporting entity decides to sell does fair value reach the level of importance where it warrants recognition in the financial statements. To record changes in the fair value of this facility each reporting period over an extended time frame (potentially 30 years or more) does not provide investors with relevant information about the likelihood and timing of the entity's future cash flows related to this asset. We expect that if this accounting were required, investors would likely adjust net earnings to remove such fair value effects because they will not be realized in the near term and are not otherwise part of the primary revenue generating activities of the entity.

It is our hope that if the Board decides to move away from the ASU's entity-based scope, it will first consult with a wide variety of investors that follow industrial or diversified companies to answer more definitively the question of relevance (financial reporting benefit) compared with the cost of this approach.

Again, we wish to acknowledge and express our appreciation for the extensive work by the Board and Staff in advance of issuing this proposed standard. We would be pleased to answer any questions you may have regarding this response.

Sincerely,



Loretta Cangialosi
Chair, Committee on Corporate Reporting
Financial Executives International