AICPA® PCPS
Private Companies Practice Section

American Institute of CPAs
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February 15, 2012

Susan M. Cosper, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: October 21, 2011 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Real Estate: Investment Property Entities (Topic 973)* [File Reference No. 2011-210]

Dear Ms. Cosper:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to represent the views of local and regional firms on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC agrees that the scope of the ED should be limited to investment properties held by investment property entities. Extending a fair value measurement requirement to all entities that hold investment properties would be burdensome to entities that do not devote substantially all of their business activities to real estate investing.

TIC is appreciative of the Board's consideration in addressing the applicability of the ED to affordable-housing entities that hold real estate properties to obtain tax credits for their investors. Paragraph BC20 provides sufficient guidance to clarify that such entities would be excluded from the fair value requirement of the ED as long as the express business purpose of the entity does not involve an exit strategy based on capital appreciation.

TIC also agrees with the following provisions of the ED:

- The distinction between an investment company and an investment property entity;

- Related party leasing;
- Investment properties acquired in a business combination;
- Rental revenue recognition;
- Transition guidance.

TIC believes, however, that obtaining intermediate fair value measurements for property under construction is not warranted in all cases and should be reconsidered. This and other recommendations are presented below.

SPECIFIC COMMENTS/RECOMMENDATIONS

Fair Value Measurements for Construction in Progress

Although TIC supports the use of fair value measurements for investment properties held by investment property entities, TIC disagrees with the Board's conclusion to prohibit a practicability exception for investment property under construction (paragraphs BC38-BC39). A requirement to obtain intermediate fair value measurements at each reporting date for construction-in-progress on long-term contracts will be onerous and unnecessary for some entities. As a general rule, single-property construction projects involving only one financial institution will most likely not need the extra valuations during the construction phase. In these cases, the financial institution will perform its own valuation of the property, at intervals it deems necessary, using its own methodology. TIC believes obtaining a fair value measurement only at the conclusion of construction would be more meaningful for such projects.

TIC recognizes, however, that financing arrangements for long-term construction projects can vary considerably. As a result, the need for intermediate valuations can depend on the size and duration of the construction project, the type of financing, the number of lenders involved, the demand for real estate and related trends in economic conditions in the local area and other factors.

Intermediate valuations would be onerous and unnecessary for the smaller, shorter-term projects involving one lender in areas where demand is low and market fluctuations tend to be small, but they may be necessary for large, complex projects involving multiple lenders, equity financing or a volatile real estate market.

With the above considerations in mind, TIC is seeking a solution that would accommodate user needs without imposing additional cost burdens on those construction projects that don't need multiple valuations during the construction period. TIC realizes that defining a clear-cut threshold for a practicability exception based on size or dollar criteria or a public/nonpublic reporting entity distinction would be arbitrary and may not appropriately define the types of construction projects that should be scoped in or out of additional valuations.

TIC therefore recommends a practicability exception that would only apply at the discretion of the financial statement user. This approach gives optionality to the financial statement user (i.e., the lender) rather than the entity and would thereby ensure that fair value measurements are obtained, when appropriate. Under TIC's proposal, the entity would have to provide a fair value measurement at each reporting date for the construction in progress unless the financial statement user waives the requirement for the intermediate appraisals. In all cases, however, TIC believes the fair value should be calculated at the completion of the construction project.

Related Parties and the Definition of Express Business Purpose

TIC believes the stated exceptions to the "express business purpose" criterion in paragraph 973-10-15-2 should be expanded to include investment property held by one or more entities under common control for the purpose of leasing such properties to the operating affiliates in the related party group. Although Illustrative Example No. 5 is meant to imply that these related party real estate entities would not be considered investment property entities, TIC believes adding an explicit reference to this exception earlier in the standard would enhance its readability and understandability. TIC would therefore support the recommendations from the Private Company Financial Reporting Committee on this issue in its letter dated January 9, 2012. If this standard has an earlier effective date than the new Leases standard, TIC believes it is especially important that clear guidance is provided as to the accounting treatment for such related party leases.

Effective Date and Transition

TIC believes investment property entities that own many investment properties will need a relatively long transition period to arrange for the required valuations. TIC is uncertain what the ideal time period would be but recommends that the FASB set the effective date to accommodate the needs of those entities, which could involve a two-year period for public companies. An additional year for nonpublic entities should also be considered. TIC also recommends that the effective date for this ASU be identical to the effective dates established for the planned ASU, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement and Disclosure Requirements* (the Investment Company ASU). These exposure drafts are interrelated and should have consistent effective dates.

TIC requests that the effective date for nonpublic entities exclude interim periods during the initial year of adoption. Many private entities do not prepare interim financial statements, and those that do will need a complete annual period (i.e., an extra year from the effective date applicable to public companies) for initial implementation of the standard. TIC therefore recommends that the effective date for private entities be stated in the following format:

> *For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 20XX, and interim and annual periods thereafter.*

TIC believes adjusting the opening balance of retained earnings in the period of adoption is the preferable transition method since restating prior periods presented would be burdensome for many entities.

TIC agrees that early adoption should be prohibited for this proposed ASU and the related Investment Company ASU to maximize consistency of reporting for the benefit of financial statement users.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Karen Kerber

Karen Kerber, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees