



February 15, 2012

Financial Accounting Standards Board
Technical Director - File Reference No. 2011-210
401 Merritt 7 - PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update, Topic 973: *Real Estate – Investment Property Entities*; Exposure Draft

Dear Board Members:

This letter represents the response of Teachers Insurance and Annuity Association of America (“TIAA”, the “Company”, “our” or “we”) to the Financial Accounting Standards Board (the “Board”) regarding the Real Estate-Investment Property Entities accounting exposure draft (the “ED”) issued by the Board on October 21, 2011. We appreciate the opportunity provided by the Board to comment on this exposure draft and to address specific questions posed by the ED.

Overview of TIAA

TIAA was established in 1918 as a legal reserve life insurance company under the insurance laws of the State of New York and is regulated by the New York State Department of Financial Services (the “Department”). Accordingly, TIAA prepares financial statements on the basis of statutory accounting principles prescribed by the Department; a comprehensive basis of accounting that differs from generally accepted accounting principles in the United States (“GAAP”). The Department requires insurance companies domiciled in the State of New York to prepare their statutory-basis financial statements in accordance with the National Association of Insurance Commissioners’ (“NAIC”) Accounting Practices and Procedures Manual (“NAIC SAP”), subject to any deviation prescribed or permitted by the Department.

At December 31, 2011 TIAA’s General Account (“General Account”) has invested assets of approximately \$204 billion held directly and through wholly-owned subsidiaries. The General Account directly owns 31 wholly-owned real estate investments reported at their aggregate depreciated cost value of approximately \$1.7 billion in accordance with NAIC SAP. At the same reporting period, wholly-owned subsidiaries of the General Account reported an additional 46 real estate investments at their gross, aggregate depreciated cost value of approximately \$7.3 billion in accordance with Topic 360, *Property, Plant and Equipment*. These subsidiaries will continue to report real estate investments under their current accounting model in accordance with GAAP as it is unlikely they will meet the proposed criterion to be deemed an investment property entity. The General Account also directly holds 121 noncontrolling equity investments in unaffiliated real estate funds and joint ventures with an aggregate carrying value at December 31, 2011 of approximately \$1.1 billion which is reported under the equity method in accordance with NAIC SAP.

In 1995, TIAA established the TIAA Real Estate Account (the “Account”) as a segregated investment account (i.e. a life insurance separate account) for the purpose of investing primarily in real estate investments. The Account is an investment option offered through individual and group variable annuity contracts issued by TIAA to its policyholders. Separate accounts such as the Account are established in conformity with insurance laws and are segregated from the General Account and maintained for the benefit of the separate account contract holders. As a registrant with the Securities



and Exchange Commission under both the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, the Account is required to prepare and publicly file audited annual financial statements prepared in accordance with GAAP. While not a registrant under the Investment Company Act of 1940, as amended (the “Investment Company Act”), the Account is an investment company as described in Topic 946, *Financial Services – Investment Companies* (i.e. “Topic 946”), and accordingly reports all of its investments at fair value. The Account also reports all mortgages loan payable and mortgages receivable at fair value under the fair value option in accordance with Topic 825, *Financial Instruments* (i.e. “Topic 825”). The net assets of the Account are valued at the close of each business day and the Account calculates and publishes a daily unit value, which is available on TIAA’s website. As of December 31, 2011 the Account and its consolidated subsidiaries reported total gross assets under management of \$15.5 billion, which included 90 wholly-owned real estate investments reported at their aggregate fair value of \$9.9 billion; the Account reported mortgage loans payable separately at their aggregate fair value of \$2.0 billion. The Account also reported 59 noncontrolling equity investments in real estate funds, joint ventures, and mortgages receivable at their aggregate total fair value of \$1.9 billion, and marketable securities consisting of investments in commercial mortgage backed securities, real estate investment trust securities, and other short-term securities with a total reported fair value of \$3.7 billion.

In 2004, the TIAA-CREF Asset Management Core Property Fund LP (the “Fund”) was organized by TIAA-CREF Asset Management, a division of Teachers Advisors, Inc. (“TAI”). TAI is an indirect, wholly-owned subsidiary of TIAA and a registered investment advisor under the Investment Advisers Act of 1940, as amended. The Fund is not a registrant under the Investment Company Act. It is a privately offered, open-end, core real estate fund that is an investment company as described in Topic 946 and accordingly reports all of its investments at fair value. At December 31, 2011, the Fund reported gross assets under management at their aggregate fair value of \$1.3 billion which consisted primarily of 27 wholly-owned real estate investments. The Fund also reported mortgages loan payable at their aggregate fair value of \$374,000 under the fair value option in accordance with Topic 825.

Summary of TIAA Response

We support the Board’s efforts to issue fair value reporting guidance for the real estate industry and greatly appreciate the Board’s willingness to engage in ongoing dialogue with our Company and others during upcoming roundtable discussions. We concur with the proposed fair value accounting and gross presentation requirements under the ED for investment properties owned by an investment property entity and the accrual-based revenue recognition requirements related to these assets. However, we request that the Board consider certain proposed revisions to the ED that we strongly believe are necessary to provide transparent and consistent financial reporting to our policyholders and investors that invest in investment property entities.

Our comments and answers to specific questions throughout this comment letter are based upon our support of the following summary of proposed revisions to the ED:

- I. **Fair value NAV (i.e. net asset value):** an investment property entity should be required to report all investments (not just investment properties) at fair value. Maintaining a comparable NAV or similar measurement for real estate entities is of paramount importance to the real estate investment community. This objective furthers the goal for consistent financial statements and performance measurements by real estate entities which are meaningful and fully transparent to our policyholders, investors, and other end users of the financial statements regarding the value of the entity’s investments. The path to achieving a fair value NAV includes the requirement for an investment property entity to report all investments at fair value, including real estate and non-real estate investments, and be required to do so without relying upon other GAAP.



- II. **Nature of business activities:** the scope of the activities assessed when identifying an investment property entity should be expanded to include all types of real estate-related investments intended to enhance and protect the entity's returns and of which the asset allocation mix is driven by changing market conditions. This mix should include mortgages receivable, properties under development, derivative instruments directly associated with real estate-related investments, real estate investment trust securities, commercial mortgage backed securities, residential mortgage backed securities, and other real estate-related investments. Additionally, the assessment of business activities should include indirect, noncontrolling investments in other entities that substantially invest in real estate-related investments.
- III. **Consolidation:** an investment property entity should not be required to consolidate controlling financial interests in another entity unless such an entity is a wholly-owned subsidiary established by the parent-investment property entity generally for legal or tax reasons.
- IV. **Financial Liabilities:** an investment property entity should be required to report mortgages payable, and other financial liabilities directly related to investment properties, at fair value in order to achieve a comprehensive and comparable fair value NAV.

We would be pleased to discuss our comments above or the answers to the specific questions below with you at your convenience. Should you wish to discuss the contents of this letter, please contact John Venezia, Phillip Nickolenko, or Austin Wachter.

Very truly yours,

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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.

Answer:

As part of the Board's overall convergence efforts with International Financial Reporting Standards, we encourage the Board to provide an option to those reporting entities that do not meet the proposed criterion of an investment property entity or an investment company under Topic 946 that would permit the election to measure investment properties at fair value or depreciated cost (i.e., similar to International Accounting Standard 40, *Investment Property*). We believe that the reporting of an investment property at fair value provides the most transparent form of financial reporting and allows comparability of performance to other non-real estate related investments (i.e. financial assets). We also recognize that companies may have a business model under which the fair value reporting of certain investments may not be beneficial and therefore propose an option, versus a requirement for non-investment property entities and investment companies to report investment properties at fair value.

The reporting of investment properties at fair value is operationally efficient for those entities that have previously reported investment properties at fair value on a recurring basis and therefore have in place an infrastructure to support fair value accounting. However, reporting entities that have not previously reported investment properties at fair value but would be required to do so under the Board's proposed ED may incur substantial costs related to frequent valuations performed internally or by external appraisers, implementation or upgrade of accounting systems, and training of staff to account for and report investment properties at fair value.

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.

Answer:

Reporting entities that satisfy the criterion for an investment property entity should be required to report investment properties and all other real estate-related investments at fair value including, but not limited to: mortgages receivable, properties under development, derivative instruments directly associated with real estate-related investments, real estate investment trust securities, commercial mortgage backed securities, and residential mortgage backed securities.

Reporting all of an investment property's investments/financial instruments at fair value provides the most beneficial and comparable financial reporting to investors that allows them to see the value of their investments and compare it to other investment vehicles such as investment companies which report all investments at fair value. Accordingly, an option provided to investment property entities to report investments at fair value would not meet



these objectives. However, as indicated in our response to Question 1 above, non-investment property entities and non-investment company entities that hold investment properties should be provided an option (i.e. similar to IAS 40, *Investment Property*) to report investment properties at fair value.

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?

Answer:

We do not believe the proposed amendments fully identify those reporting 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. Please see our proposed amendments regarding the “nature of business activities” and “express business purpose” criterion fully described in our responses to questions 6 through 8.

Notwithstanding the above, we agree that investment properties reported at fair value, whether by an investment property entity, an investment company as defined in Topic 946, or any other entity type, should be excluded from the proposed lease accounting rules for lessors.

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?

Answer:

It is our experience at TIAA that a change in the purpose and design of an investment vehicle mid stream during the entity’s term is uncommon. TIAA will generally form a new investment vehicle when an alternative purpose and design are required to meet investment objectives. Accordingly, it is likely that existing entities that meet the criteria of an investment property entity will continue to operate under its original design and purpose and would likely enter a wind-down phase if the initial purpose and design no longer meet revised investment objectives. Notwithstanding our comments, we agree that declassification as an investment property entity would be appropriate if the entity no longer satisfies the purpose and design criterion of an investment property entity. While operational, it is likely that a change in the purpose and design of an entity that results in a change in accounting methods would be costly.

We do not agree that declassification as an investment property entity is necessary or appropriate if the purpose and design of an investment property entity changes as a result of the entity entering a wind-down phase because such a costly and time-consuming process will not provide any long-term value to the remaining investors.



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.

Answer:

We believe that a reporting entity that substantially invests in real estate-related investments (see answer to question 2 for our list of real estate-related investments) should be classified as an investment property entity and therefore must report all investments at fair value. We agree that an entity that does not satisfy the criterion of an investment property entity but satisfies the criterion of an investment company under Topic 946 should report and present investment properties as proposed under the investment property entity ED.

To avoid inconsistencies and confusion to investors and other stakeholders, we believe that the proposed criterion for investment property entities and investment companies should not allow an entity to qualify as both but qualify only as one. That is, entities that do not satisfy the criterion of an investment property entity would then assess whether they meet the criterion of an investment company.

We feel very strongly that the legal or tax structure of a reporting entity should not dictate whether it is an investment property entity, an investment company, or neither of the above. In general, different legal structures generally exist to support non-accounting related objectives and/or to comply with applicable law, rule or regulation. Accordingly, the purpose and design of an entity, particularly its investment objectives, should be the defining criteria for classification as an investment property entity, an investment company, or neither.

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.

Answer:

We believe that substantially all of an investment property entity's business activities should be investing in real estate-related investments in general, and not limited to investment properties. Real estate investments can be structured differently from the mere direct ownership of investment properties. Real estate investors are accustomed to diversifying their portfolio into the various investment forms (see below) for which the performance of these investments are generally a result of the underlying properties' performance.



In addition to investment diversification objectives, an investment property entity similar to an investment company must be capable of providing liquidity to its investors. This is accomplished by investing partially in real estate-related investments such as marketable securities which provide the necessary liquidity to the reporting entity and its investors. Business activities of an investment property entity should include investments in mortgages receivable, properties under development, derivative instruments directly associated with real estate-related investments, real estate investment trust securities, commercial mortgage backed securities, residential mortgage backed securities, and other real estate-related investments. This proposal is operational because many reporting entities currently meet the criteria of an investment company under Topic 946 and accordingly report all real estate-related investments, regardless of form, at fair value.

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?

Answer:

We believe that when determining the nature of business activities criterion, the reporting entity should include all real estate-related investments (see answer to question 2 for our list of examples) held indirectly through investments in which the reporting entity does not have a controlling financial interest (e.g. investments in real estate limited partnerships, real estate funds, or joint ventures with substantial real estate-related investments). Such investments are considered an alternative form of real estate investments and, as indicated above, the returns of which are generally a reflection of the underlying properties' performance. Accordingly, all noncontrolling interests in other entities with holdings in real estate-related investments should be included when considering whether the reporting entity has satisfied the business activities criterion.

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.



Answer:

We agree that activities noted in item (a) above should be excluded from the determination of the express business purpose criterion. However, we disagree that activities noted in item (b) should be excluded from this determination. Investments in development properties, whether the intention of the reporting entity is to hold for lease and future sale, or simply for future sale, are another form of real estate investments and should be included as a permissible type of investment for purposes of determining the express business purpose criterion. The development of real estate can be a timely process during which dynamic changes in the market place can occur and oftentimes, development activities on a particular development property will reflect and be dependent on changing market conditions. Accordingly, the reporting of these investments at fair value provides comparable and transparent financial reporting to investors while the project is ongoing.

Furthermore, we ask that the Board provide additional clarity as to when investments in hotels, timberland or agriculture properties may or may not be included in the entity's determination of its express business purpose.

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.

Answer:

While we generally agree with the Board's proposal that the express business purpose of an investment property entity should encompass a total return strategy, we request the Board provide additional guidance on how reporting entities and their auditors can verify that this criterion is met by applying a principles-based approach in assessing whether the reporting entity's overall purpose and design satisfy that of an investment property entity.

Notwithstanding our request for additional guidance, we agree with the Board's comments in the Background Discussions, Basis for Conclusions and Alternative View section of the ED which would permit a reporting entity to demonstrate its express-business-purpose criterion by making its business objectives generally known to investors and auditors through an offering memorandum or similar document. We do not believe the documentation of this criterion on an individual investment basis is operational given the potential uncertainty of the principal markets and the illiquidity associated with investment properties.

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?



Answer:

We concur with the Board's proposal regarding the Unit Ownership and Pooling of Funds criterion. Specifically, we concur with paragraphs a-c in the proposed subtopic 973-10-55-15 that would allow a reporting entity to be in compliance with this criterion while the entity continues to identify potential investors during the entity's offering period, attempt to replace investors that have redeemed their interests after the offering period has ended, or during the entity's liquidation phase.

We also suggest that the Board include language in paragraph 973-10-55-15 similar to that in paragraph BC26 of the ED's "Background Discussions, Basis for Conclusions and Alternative View" section regarding the number of investors necessary to satisfy the pooling of funds criterion, ".....the entity must have **one or more** investors that are not related to the entity's parent". The additional language in the actual update will add valuable clarity when determining whether the criterion has been satisfied.

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?

Answer:

We concur with the Board's proposal regarding the exemption to the unit-ownership and pooling-of-funds criterion as described in question 11. We propose that the exemption also apply to a subsidiary entity held solely for the benefit of a life insurance separate account that measures investments at fair value.

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?

Answer:

As we noted in our response to question 2, an investment property entity should report all investments at fair value with changes in fair value recognized in net income, similar to the requirements of Topic 946 for investment companies; this should apply to all real estate-related investments including investments described in question 2. It is especially important that an investment property entity produce a meaningful fair value NAV for its investors. Without the ability to report all investments at fair value, an investment property entity may not be capable of meeting this objective for its investors.



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?

Answer:

We concur with the Board's proposal as stated in question 13. Also, please see our response to question 12 regarding the importance of reporting all investments at fair value.

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?

Answer:

We believe it is appropriate for an investment property entity to consolidate controlling financial interests in another investment property entity or an investment company that is wholly-owned. However, we disagree with the Board's proposal to require an investment property entity to apply Topic 810, *Consolidation*, to financial interests in less than wholly-owned subsidiaries because of the following unintended consequences that may arise from such a requirement:

- a. In the event the reporting entity (i.e. an investment property entity) holds a less than wholly-owned financial interest in an investee entity, the reporting entity's consolidated balance sheet will report 100% of consolidated assets while only reporting its proportionate share in the consolidated assets in its Statement of Investments. While users of financial statements for operating companies currently contend with this issue real estate investors may find consolidated financial statements more confusing than helpful;
- b. Similar to (a), the reporting entity's Statement of Operations could also be confusing or deceiving to investors because the financial statement user will look to the net income reported without taking into account (or netting out) the net income component pertaining to non-controlling interests;
- c. The concept of investment property entities or investment companies reporting investments at fair value is generally founded on the presumption that investors tend to move in and out of investment vehicles frequently based on market conditions and therefore require a fair value NAV measurement that identifies the value of their investment. Accordingly, as investors increase or decrease their position in an investment vehicle frequently and unexpectedly, the reporting entity may be forced to increase or decrease its investment in underlying entities. This frequent change in ownership level could impact whether consolidation criteria is met or not met, and thereby result in frequent shifts between a consolidated and deconsolidated presentation. This would further create reporting inconsistencies between reporting



periods, confusion for financial statement users, and generally negate any other perceived benefits of transparency related to consolidation. Simply stated, this approach is not operational;

- d. Consolidation, particularly under the variable interest entity model, may not benefit financial statement users due to the complexity of this accounting model and those users will bear the additional costs that result from this new requirement;
- e. A “mixed” presentation will result when reporting similar investments in multiple funds where some are reported at fair value while others are reported on a consolidated basis and thus cause confusion for financial statement users;

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?

Answer:

We agree with the Board’s proposed exception thus allowing the application of the equity method of accounting as fully prescribed in Topic 323 only to investments in an operating entity that provides services to the investment property entity.

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?

Answer:

Similar to an investment company, an investment property entity should be required to measure all investments, including held-to-maturity debt securities, as well as all other marketable securities at fair value. As indicated previously, it is important that an investment property entity produces a fair value NAV for its investors and can only do so if the entity reports all investments at fair value. Otherwise, the application of other U.S. GAAP to measure select investments could lead to inconsistencies in financial reporting between unrelated investment property entities.

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?



Answer:

We believe that the determination of a fair value NAV encompasses the reporting of financial liabilities, particularly mortgages payable, at fair value with changes in fair value recognized in net income. We also believe the utmost transparency in financial reporting is prevalent when reporting such liabilities at fair value. This is due to the correlation of the financial and legal attributes between a mortgage note and its collateral (i.e. the property), as well as the impact that the value of the liability may have on a potential sale of the property in which the debt will be assumed by the purchaser. We also believe that financial liabilities incurred to enhance or provide liquidity to an entity also be reported at fair value.

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?

Answer:

We agree with the Board that it is appropriate for an investment property entity to recognize rental income on investment properties subject to when lease payments become receivable in accordance with the contractual terms of the lease agreement. The straight-line method of reporting lease payments under Topic 840, *Leases*, would not be appropriate because the fair value of an investment property already encompasses the effect of increases and decreases in rental payments during the life of a lease. Applying the straight-line method in addition to fair value accounting would double-count the effect of changes in lease payments, or result in the inefficient task of backing out this effect from the investment properties fair value calculation to avoid double-counting of the changes in lease payments.

We also believe that other forms of revenue recognition associated with financial assets owned by an investment company would not be appropriate because such a presentation would not provide the same level of transparency as reporting a property's rental income separately from the property's expenses (e.g. real estate taxes and insurance costs).

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.

Answer:

An investment may no longer qualify for the practical expedient if that investment is in an investment property entity that does not measure all investments at fair value. An example is an entity that holds investment properties and other real estate-related investments but prior to



the issuance of the ED satisfied the criterion of an investment company and therefore measured all investments at fair value. If this entity satisfies the proposed criterion of an investment property entity, it would be required to measure non-investment property assets under other GAAP, causing certain assets to be measured on a non-fair value basis (e.g. mortgages receivable are reported at amortized cost under GAAP). Because the entity no longer measures all investments at fair value, the investor would likely not transact at NAV, nor use NAV as a practical expedient.

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?

Answer:

We agree with the Board's proposal for disclosure requirements applicable to investment property entities.

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?

Answer:

We agree with the Board's proposal regarding the effect of adopting requirements under Topic 973.

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

Answer:

Entities that currently do not report their investment properties at fair value but will be required once they are scoped into Topic 973 will likely require a minimum of 24-30 months prior to the effective date to train staff, implement new or update existing accounting systems, and revise procedures and internal controls to accommodate the new basis of reporting. Reporting entities that currently report their real estate investments at fair value will not need as much time given their past experience.

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

Answer:

We agree that early adoption would not be in the best interest of investors by creating inconsistent reporting between entities that early adopt and those entities that do not early adopt.



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?

Answer:

The proposed amendments should apply to all entities, regardless of whether they are a public or nonpublic entity, to reduce inconsistencies in financial reporting.