



1095 Avenue of the Americas
New York, NY 10036

Peter M. Carlson
Executive Vice President and
Chief Accounting Officer
pcarlson@metlife.com

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

February 15, 2012

Re: File Reference No. 2011-210

Dear Ms. Cosper:

MetLife, Inc. (MetLife) is pleased to comment on the FASB's Exposure Draft, *Real Estate – Investment Property Entities* (Topic 973), (the Exposure Draft). We commend the Board on its efforts to develop high-quality accounting standards in an effort to reduce the diversity in practice related to the accounting by real estate entities and to improve the transparency and usefulness of financial statements.

MetLife is a leading global provider of insurance, annuities and employee benefit programs, serving 90 million customers in over 50 countries. MetLife holds an \$8.6 billion high-quality global real estate investment portfolio consisting of wholly-owned properties, joint venture interests and real estate funds (real estate investments). We manage our real estate investments to produce the highest returns to meet policyholder claims and provide value for our shareholders. Managing real estate investments includes maintaining optimal diversification with respect to regions and class, attracting high-quality tenants, and opportunistically buying and selling to maximize our overall investment return.

We do not see a compelling conceptual basis for an entity-based approach for determining whether real estate should be measured at fair value. Regardless of form of ownership or the accounting classification, the strategy for real estate investments is the realization of current income and capital appreciation. Fair value is the most relevant measurement attribute for real estate investment properties (Investment Properties) since it is most aligned with that strategy. While real estate investment strategies of an institutional investor are essentially the same as a manager of an investment property entity (IPE), under the proposed guidance an institutional investor would be precluded from measuring Investment Properties at fair value simply due to the business purpose of the entity. Therefore, we do not agree with an approach that deems fair value as the relevant measurement attribute only for an IPE. We believe all entities holding Investment Properties should be permitted to measure Investment Properties at fair value.

Providing an option for an entity to choose either the fair value or cost model to measure its Investment Properties is also consistent with International Accounting Standard 40 – *Investment Property* (IAS 40). Therefore, a fair value election would achieve the dual objective of convergence and reduction of industry specific accounting. In addition, consistent with IFRS, we agree that once an investor elects a measurement basis, the investor should be required to apply that measurement basis to all of its Investment Properties.

We acknowledge the Board's concern that providing an option to measure Investment Properties at fair value or cost would reduce comparability between entities. Any concerns about comparability can be overcome with appropriate financial statement disclosures. However, if the Board does maintain its current position of not providing a measurement option based on investment objectives, we believe fair value is the most appropriate measure for all Investment Properties.

While we are recommending that entities not otherwise required to measure Investment Properties at fair value be given the option to do so, we do not have a recommendation as to the classification of the changes in fair value within comprehensive income. We believe a conceptual framework for net income and other comprehensive income must first be developed to determine the appropriate classification. This conceptual framework would also help resolve similar accounting issues relating to financial instruments, insurance contracts and employee benefits.

We appreciate the opportunity to comment on the Exposure Draft. Our responses to the Questions for Respondents are attached. Although we do not support the concept of an IPE, certain responses to the questions do assume the concept is adopted by the Board. If you have any questions regarding the contents of this letter, please do not hesitate to contact me.

Sincerely,



Peter M. Carlson

cc: Eric Steigerwalt
Executive Vice President and
Interim Chief Financial Officer

Responses to Exposure Questions

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.

We do not agree with the proposal to create a separate concept of an IPE that would allow only certain entities to measure Investment Properties at fair value. Regardless of the form of ownership or the accounting classification of the investee, the strategy for real estate investments is the realization of current income and capital appreciation. Fair value is the most relevant measurement attribute for Investment Properties since it is most aligned with that strategy. We believe all entities holding Investment Properties should be permitted to measure such investments at fair value. We support the provisions of IAS 40, which provides an option for an entity to choose as its accounting policy to measure all of its Investment Properties using either a fair value or cost model. The IAS 40 guidance is based on the nature and objectives of the investments.

We have no operational concerns related to the fair value measurement of Investment Properties.

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.

We believe fair value measurement of Investment Properties should be an option unless otherwise required by specific guidance such as the proposed investment company guidance. An entity should be permitted to select the accounting measurement for its Investment Properties that best aligns with its investment objectives. Concerns about comparability can be overcome with the appropriate financial statement disclosure.

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?

We understand that the Board tentatively decided to expand the lessor scope exception to all Investment Properties whether or not such investments are measured at fair value. Assuming this tentative decision is finalized, we believe the proposed amendments appropriately identify the entities that should be excluded from the scope of the separately proposed lease accounting guidance.

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?

If the Board decides to move forward with an entity-based approach, we agree that an entity should be required to reassess whether it qualifies as an IPE if there is a change in the purpose and design of the entity. This approach should be operational.

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.

We do not see a significant difference between the two proposed sets of guidance except for the disclosure requirements with respect to real estate holdings outlined in the Exposure Draft. Both sets of guidance would result in the measurement of Investment Properties at fair value. Therefore, we see no need for providing separate guidance for entities that hold Investment Properties. As such, an entity should first determine if it qualifies as an investment company. If so, it would apply the provisions of Topic 946 and measure Investment Properties at fair value. If not, the entity would apply other U.S. GAAP guidance, which under our recommendation would permit the use of a fair value or cost measurement based on the investment objectives.

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.

If the Board decides to move forward with the IPE concept, we do not believe an IPE should be restricted to investments that are substantially all Investment Properties. An entity should be able to invest in any real estate-related activity and still qualify as an IPE. Further, we believe investing in bonds, other securities, or short-term loans while considering suitable real estate investments should not affect an entity's IPE status.

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?

The evaluation of an entity's business activities should consider Investment Properties held through noncontrolling financial interests since such interests provide the entity with a proportionate share of the same economic exposure as owning Investment Properties directly.

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.

We believe company-occupied and development properties should be excluded from the scope of the proposed guidance. It is not appropriate to measure development properties at fair value since such properties are essentially inventory of the entity. However, an entity that holds Investment Properties and develops real estate for sale and/or holds other real estate investments should not be precluded from qualifying as an IPE, if that concept is adopted.

We also note that Paragraph BC15 of the Exposure Draft states that certain investments would not be considered Investment Properties because the entity may be performing significant business activities other than investing in Investment Properties. We disagree with this conclusion. For example, hotels have long been viewed and classified as Investment Properties by many institutional investors. Institutional investors often acquire hotel properties as part of their portfolio diversification strategy. We believe the Board should reconsider the classification of such investments if the IPE is adopted. The guidance for classifying these investments should be based on the level of the expected rental revenue in relationship to the expected revenue from other services.

Questions #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.

If the IPE concept is adopted, we believe the exit strategy requirement should be flexible enough to allow an investor to adjust to changes in economic conditions.

In addition, under current U.S. GAAP, an entity that sells Investment Properties is required to report such investments as discontinued operations in accordance with Accounting Standard Codification (ASC) Topics 360 – *Property Plant and Equipment* and 205- *Presentation of Financial Statements*. Investment Properties held for current income and capital appreciation should not be considered a “component” of an entity and, therefore, should not be subject to ASC 360 and 205, with respect to reporting discontinued operations. The previously proposed FASB Staff Position No. FAS 144-d, *Amending the Criteria for Reporting a Discontinued Operation* (the Proposed FSP) would have limited the number of activities that are reported in discontinued operations. Under the Proposed FSP, disposals of Investment Properties would have been excluded from the discontinued operations reporting requirement. We request that the Board reconsider this issue in conjunction with issuing final guidance on the accounting for Investment Properties.

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?

If the Board decides to move forward with the IPE concept, we believe this criterion is appropriate, as it is consistent with the separately proposed investment company guidance.

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?

No. These exceptions would contradict our recommendation that an entity-based approach is not appropriate.

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?

We agree that real estate other than Investment Properties should be measured in accordance with other U.S. GAAP since the nature of an asset should determine its measurement basis.

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?

We agree that right-of-use assets where the underlying assets meet the definition of Investment Properties should be measured at fair value.

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?

Consistent with observations made in our comment letter on the Board's exposure draft on Topic 946, we do not believe consolidation of such entities provides decision-useful information.

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?

We agree that an IPE should be prohibited from applying the equity method of accounting in Topic 323 unless the investee is an operating entity that provides services to the IPE. This treatment is consistent with the proposed guidance for investment companies.

Questions #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?

We believe an IPE should be required to measure such investments in accordance with other U.S. GAAP since the nature of an asset should determine its measurement basis.

Questions #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?

We agree that an IPE should be required to measure its financial liabilities in accordance with other U.S. GAAP.

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?

We believe recognizing rental revenue as payments are received or become receivable is appropriate for Investment Properties measured at fair value.

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.

We believe it would be difficult for most real estate fund investors to obtain the information necessary to accurately determine the fair value of their investments. The conditions that prompted the Board to issue guidance permitting the use of net asset value per share (NAV) as a practical expedient still exist. Therefore, we believe the proposed amendments should permit, as a practical expedient, an entity to estimate the fair value of its investment in an IPE using the NAV of the investment.

Questions #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?

We believe the proposed disclosures are appropriate; thus, we do not believe any additional disclosures are necessary.

Questions #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?

Although there would be a lack of comparability between periods presented for some entities that previously measured Investment Properties at historical cost, we believe this transition method is preferable to full retrospective application.

Questions #22:

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

We believe twelve to eighteen months should be sufficient time to implement the proposed amendments.

Questions #23:

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

We believe early adoption should be permitted since the Exposure Draft is no longer dependent on the proposed leasing standard.