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CFA Institute Response to Investment Property Entities Proposed Update Questions

This document represents our response to the specific questions raised by the Financial Accounting Standards Board ("FASB" of "Board") in its Proposed Accounting Standards Update ("Proposed Update"), *Real Estate – Investment Property Entities (Topic 973)*. A comment letter on the Investment Property Entities ("IPE") Proposed Update has been filed with the FASB and may be found at our website (**IPE Comment Letter**).

Scope & Measurement Basis (Questions 1 and 2)

Our **IPE Comment Letter** sets forth our views on the scope and measurement issues raised by the Proposed Update. As we articulate there, we do not support an entity-based approach. Rather, we support an asset-based approach which requires fair value for all investment properties and we believe fair value for all other real estate properties should go further.

Qualification Criteria (Questions 3 and 4)

We believe that the criteria to qualify as an IPE are highly subjective, open to interpretation, and contain several implicit options. The implicit options embedded in the proposed criteria will provide firms with structuring opportunities to choose to fall within the scope of the guidance or outside of it. We expand on these points in our detailed comments on the qualification criteria.

In large part, the criteria are based on management intent. Therefore, the proposal will result in entities with slightly different business models accounting for assets with the same economic characteristics very differently causing comparability issues across entities.

Moreover, the Proposed Update requires an entity to continually reassess whether it is an IPE. This may lead to an entity falling in or out of the scope of the guidance when there is a change in management intent, which may cause the measurement basis of investment property held by the entity to change.[1] Consequently, this intent-based proposal will not only lead to comparability issues across entities but may also do so within entities over time. The fleeting nature of management intent inhibits the Proposed Update from being operational.

A further layer of complexity is added by the fact that the qualification criteria for IPEs and Investment Companies ("IC") are very similar – with the criteria for investment companies being equally subjective, open to interpretation, and containing implicit options. The non-economic distinctions (i.e. false boundaries) – in terms of which entities fall within the scope of which guidance – created by these two proposals establish artificial asymmetries and unnecessary complexities, which investors will not understand or undertake to investigate, that will inhibit comparability, cause implementation issues and lead to other unintended consequences as we articulate in the remainder of this comment letter.

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[1] For example, if an entity no longer qualifies as an investment property entity nor does it fall within the scope of the investment company guidance, then the measurement basis for its investment property will no longer be fair value.

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Interaction Between Investment Property Entity & Investment Company Guidance (Question 5)
CFA Institute does not believe that the type or form of an entity should dictate its accounting and reporting requirements. The false boundaries created by these proposals in terms of which entities fall within the scope of which guidance create artificial asymmetries that will inhibit comparability across entities and industries.

While the IC accounting literature covers a broader range of investment types beyond real estate investment properties, it is unclear why the FASB has determined that there is a need for separate guidance on IPEs, the intended interaction between the guidance on IPEs and ICs, and why the FASB believes that different accounting models are needed for both types of entities.

Moreover, these proposals require an entity to follow a complex decision tree in order to determine which accounting guidance to apply. As stated in the November 18, 2011 issue of the FASB, *In Focus*:

> The criteria to be an IC and IPE are similar. An entity that is regulated under the Securities and Exchange Commission's ("SEC") Investment Company Act of 1940 would be required to follow IC accounting guidance. All other entities would first determine whether they are IPEs. An entity that is not an IPE would then determine whether it is an IC. Entities that do not meet either definition would follow other applicable U.S. GAAP.

If an entity meets the criteria to be both an IPE and an IC, then the IPE guidance prevails. As we have already mentioned, the criteria to qualify as an IC or an IPE are not only very similar but highly subjective and open to interpretative pressures. Consequently, the respective criteria may fail to capture the entities that were intended would be captured within the scope of the guidance and may capture others that it did not intend to capture within their purview. Moreover, which guidance an entity is scoped into will certainly matter due to the different accounting, presentation, and disclosure requirements of each.

Instead of introducing these complexities the proposals should be amended to require entities to measure all of their investments at fair value. This approach is most appropriate in the measurement of assets – irrespective of the industry, type of entity or legal structure of the entity in which the investment asset resides. This will result in greater comparability and decision-useful information for investors.

Nature of the Business Activities (Questions 6 and 7)

Direct vs. Indirect Investments in Real Estate – As we have already noted, we believe that the boundaries created by the Proposed Update are artificial. This is true not only in terms of the entities that fall within the scope of the guidance, but also the types of assets that the Proposed Update deems should be measured at fair value.

The "nature of the business activities" criterion requires that "substantially all of the entity's business activities are investing in real estate property or properties." Per the Proposed Update, only direct investments in real estate investment properties held by an entity will be considered in the determination of whether the entity qualifies as an IPE. In addition, only these investments will be measured at fair value with other real estate assets measured in accordance with other applicable U.S. GAAP.

We believe that these false demarcations should be removed. A proportionate indirect interest is economically equivalent to a direct interest of the same amount and, therefore, should be included in the determination of what constitutes an IPE. The scope should be expanded to include investing in real estate assets in general (such as real estate related debt securities and mortgage receivables). Such assets should also be measured at fair value because it results in the most useful information and it is counterintuitive that potentially more liquid assets are not at fair value.

Controlled vs. Non-Controlling Financial Interests – CFA Institute does not believe that different structures or forms of ownership should prescribe accounting and reporting requirements. Hence, investments in real estate made through non-controlling interests should be included in the overall determination of whether an entity meets the "nature of the business activities" activities criterion. If not, the proposal as written will create structuring opportunities for entities and, consequently, create implicit options within the scope of the guidance.

Illustration – We provide an example to illustrate the point. An entity that does not wish to fall within the scope of the guidance may choose to hold 65% of its real estate portfolio through direct investments in real estate with the other 35% representing investments through non-controlling joint ventures. As such, the entity will not qualify as an IPE as it will not meet the "substantially all" requirement since the investments through non-controlling interests will not qualify when evaluating the "nature of the business activities" criterion. On the other hand, should the entity choose to fall within the scope of the guidance it could hold most of the same real estate through a controlling interest.

Reassessment – Moreover, certain changes that are addressed by other U.S. GAAP (such as a change in consolidation considerations) could require the entity to reassess whether it continues to qualify as an IPE. For example, an entity may determine it is an IPE because it invests in real estate through a controlled joint venture. An event may occur that requires it to reconsider whether it continues to control the joint venture. That reconsideration could result in a determination that a loss of control has occurred and the joint venture is no longer consolidated. In that case, the entity as a whole may no longer qualify as an IPE based on the fact that it would have to ignore real estate investments made through its non-controlling interest.

Summary – The form of ownership of real estate investments should not impact the measurement basis of the real estate investments. Otherwise, identical assets will be measured using different measurement bases. According to the Proposed Update, if an entity holds the majority of its real estate through controlling interests, it will measure its real estate at fair value. If not, it will measure the very same real estate in accordance with other applicable U.S. GAAP. The exclusion of such real estate from the "substantially all" determination creates implicit options with ensuing structuring opportunities. In addition, the exclusion of non-controlled affiliates may cause the entity to shift in and out of the proposed guidance.

Express Business Purpose (Questions 8 and 9)
Proposed Criteria Subject to Interpretive Issues – The most challenging aspect of the Proposed Update is deciding whether an entity qualifies as an IPE. This process may be complex and involve significant judgment and interpretation in certain cases.

For example, the express business purpose criterion states that an entity's express business purpose must be to invest in one or more real estate properties for total return, including an objective to realize capital appreciation. Thus, an entity is precluded from qualifying as an IPE if it holds real estate for the receipt of rental income. It is, however, unclear whether an entity that generally holds properties for a relatively long period to generate rental income, but occasionally disposes of properties through sale, would be an IPE. Would occasional sales constitute "realizing capital appreciation?"

Implicit Option – Entities may believe they can present themselves to investors one way or another depending on their desire to either qualify or not qualify as an IPE. If entities attempt to view the wording of this criterion – that being that they must express an intent – as providing a choice to qualify as an IPE, it will create an implicit option with respect to scope and call into question the veracity of management's claim with respect to the entity's business purpose.

Exit Strategy – The express business purpose criterion requires that the company have a defined strategy to exit its real estate investments. In other words, to meet this criterion, IPEs would need to have an exit strategy regarding how they plan to exit or dispose of their real estate investments to realize capital appreciation.

No Expressed Exit Strategy – This could affect real estate companies that do not have any express plans to sell or dispose of their real estate assets. Certain real estate investment trusts (REITs) may not qualify as IPEs due to their lack of a sufficiently defined exit strategy. While the business strategies described in public documents for many REITs may not specifically discuss disposal plans for their investments, most REITs have developed strategies through which they can maximize total return to shareholders from operating cash flows and capital appreciation (either from an increase in the value of the investment properties or realizing appreciation through sale).

Rental Income and Capital Appreciation – We believe that the Proposed Update creates a false distinction between entities that hold investment properties for income only or for both income and capital appreciation. The criterion should be amended to reflect the same outlook as that of the express business purpose criterion in the IC guidance, which states that an IC's substantive activities are investing in multiple investments for capital appreciation, investment income or both. Furthermore, excluding an entity that invests in a real estate property or properties to

collect rental income on a long-term basis from the scope of this proposal will result in similar assets being accounted for differently with the ensuing comparability issues.

Liquidation – In addition, according to the Proposed Update, disposal of investment properties only during liquidation, or to satisfy investor redemptions, are not considered exit strategies. Therefore, it appears that an entity that plans to retain its investment properties until liquidation (such as a closed-end real estate fund) would not qualify as an IPE.

Long-Term Investments – We understand that the Board believes that if investment properties are held for the long-term then the fair value is not relevant to users. However, whether an investment property is held for the short, medium or long-term the value of the investment property is relevant to investors as the value of the entire portfolio of investment properties is a significant factor in determining the share price. Hence, the unintended consequence of this criterion is that entities that should apply fair value measurement to their investment properties will be scoped out of the guidance. These entities will thus not be able to render the most useful information to investors. The examples in our **IPE Comment Letter** illustrate this point.

Summary – We do not believe that an entity that invests in a real estate property or properties but does not have an express exit strategy for its real estate properties or only intends to do so upon liquidation should be excluded from the scope of this proposal because exclusion of such entities creates yet another false border precluding certain entities from measuring their real estate properties at fair value.

Purposes That Do Not Meet Criterion – The proposal states two purposes for holding real estate that would disqualify an entity from being designated an IPE. Those include: 1) own use property, and 2) property developed for sale in the ordinary course of business. We do not believe these exclusions are appropriate and demonstrate the point with the two examples below.

First, it is common practice for a portion of certain asset types to be used for administrative purposes (e.g. on-site property management offices within multifamily residential properties or regional shopping malls). Since part of the property is for own use this may be sufficient to disqualify the entity from being an IPE. A possible solution would be for the FASB to require classification to be based on the predominant characteristics of the property and would align the FASB guidance with that of the IASB in this respect.[2] This solution would also remove structuring opportunities (i.e. entities would be unable to choose to be scoped out of the guidance by using a small portion of properties for administrative purposes).

Secondly, asymmetries will be created by the second disqualifying purpose – that being the development for sale in the ordinary course of business. An entity that wanted to sell a mall could either: 1) develop a property to build the mall for sale, or 2) purchase a mall to sell it. In the first instance, the entity would qualify as an IPE, in the second it would not.

[2] IAS 40, *Investment Property*, states: "Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately.

Unit Ownership and Pooling of Funds (Questions 10 and 11)
CFA Institute does not have any significant issues with the unit ownership and pooling-of-funds criteria. However, the Proposed Update provides an exception to the unit ownership and pooling-of-funds criteria for an entity whose sole investor is required or permitted by other applicable U.S. GAAP to measure its investments at fair value. CFA Institute disagrees with exception-based accounting such as this because it implies the distinction is non-economic and that comparability will ultimately suffer.

In the absence of the exception, the unit ownership and pooling-of-funds criteria would be of particular concern for pension plans that own 100 percent of an entity that invests solely in real estate investments and insurance company separate accounts that hold single investment properties. It may be that, in this case, conforming to the exception yields the correct result by ensuring that such entities are not scoped out of the proposal. However, the fact that the Board has had to create exceptions to the qualification criteria in order to achieve desired outcomes leads us to question the quality and robustness of the qualification criteria.

If some portion of an entity's underlying investment portfolio is invested in other than real estate assets, it may fail to qualify as an IPE as it may not meet the substantially all criterion. The entity may, however, still qualify as an IC given the nature of its investment portfolio. If the entity were capitalized with 100 percent of its investment from a single pension fund, it will not qualify as an IC as it will fail the pooling-of-funds criterion under the proposed IC guidance. We note that the pooling-of-funds exception provided in the IPE Proposed Update is not provided in the IC Proposed Update. Thus, if the entity fails to qualify as an IPE because the majority of its assets are not real estate and also fails to quality as IC because the pooling-of-funds criteria may not be met, it may be unable to apply fair value measurement to its investments – despite that being the most relevant measurement basis.

Measurement (Question 12)
To appropriately meet the needs of investors in real estate investment entities, we believe it is critical for the IPE to provide a high quality NAV measure which we define as simply the amount investors would receive if all investments of the real estate investment vehicle were sold at their respective fair values. In today's global capital markets, there are a wide variety of non-exchange traded real estate investment vehicles that invest in a wide range of real estate and real estate related investments spanning the spectrum of public and private debt and equity investments as well as everything in between. Such investments include a diverse array of controlling, non-controlling and partial interests in various types of real estate.

The importance of a high quality NAV measure that is comparable among investment vehicles cannot be overemphasized because of the manner in which the NAV measure influences capital flows in the capital markets. The measurement of NAV ultimately determines the measurement of net income for such vehicles, and net income is used to calculate investment returns for a vehicle. Investment return is one of the most important metrics investors use to make decisions regarding which investment management firms will be selected to manage investor capital, as well as to make decisions regarding the overall allocation of capital to real estate versus other investment asset classes. We believe any proposed accounting standard that reduces the quality of the NAV measure, because a portion of an entity's investment assets or liabilities is not reported at fair value, will be poorly received by the investment community due to the perception

that such a proposal will negatively impact the proper functioning and efficiency of the capital markets.[3]

The proposal requires real estate properties other than investment properties that are held by an IPE to be measured in accordance with other U.S. GAAP. As argued above, we believe that all assets (and as we articulate below all liabilities) should be measured at fair value.

In the absence of all assets being measured at fair value, we urge the Board to require that all real estate investment assets be measured at fair value and that the Board require the disclosure of the fair value of real estate assets other than those held for investment purposes as well as other assets.

Interests in Other Entities (Questions 14, 15 and 16)
CFA Institute believes that the financial statements of an IPE should reflect all interests in other entities at fair value in order to attain a high-quality NAV. Instead the Proposed Update recommends that different investees be accounted using different measurement bases as illustrated in the table below. A chart at the **Appendix** provides an illustration of the differences.

Nature of Interest	Method of Accounting	Measurement
Controlling Financial Interests		
Another IPE	Consolidate	Retain specialized accounting.
An IC	Consolidate	Retain specialized accounting.
An operating entity that provides services to the IPE	Consolidate	The Proposed ASU is silent on this point.
Any other entity	Fair value with all changes in fair value recognized in net income.	
Significant Influence Over Financial Interests		
Operating company that provides services to the IPE	Equity Method	
All other investments including investments in another IPE, IC or any other interests	Fair value with all changes in fair value recognized in net income.	
Other Financial Interests (No Control or Significant Influence)		
All investments	In accordance with other relevant U.S. GAAP.	

These different measurement bases lack consistency, will cause confusion amongst investors and will not result in a high-quality NAV. Our view is that fair value is the relevant measurement basis for all investments.

Financial Liabilities (Question 17)
As noted earlier, we believe that fair value is the relevant measure for investment properties irrespective of whether they are held in an IPE. Reflecting financial liabilities associated with such investment property at amortized cost does not provide investors and other users of the financial statements with decision-useful information. While investors certainly want to understand the required anticipated cash outflows necessary to meet the obligations of the entity – just as they would desire to understand the cash flows being generated by the associated investment properties – investors are not willing to invest in an entity at book value if the interest rate on the amortized cost value of the debt exceeds market interest rates. They will want to pay less than book value because this fixed commitment no longer reflects market conditions. Similarly, investors would be willing to pay more for an enterprise which has secured fixed rate financing which is below current market rates.

[3] Excerpt from AICPA Investment Property Entities Task Force comment letter.

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While some argue that reflecting a "gain" in net income (and equity) due to an increase in market interest rates (due either to an increase in real interest rates or credit spreads) is counterintuitive, we would note that the appropriate question to be asked is: "Would an investor pay more for the shares (or an equity interest) in an entity which has secured below market financing?" When cast in this light, it does not appear counterintuitive that equity should rise as the market interest rate on debt increases.

Still further, if an IPE strikes a NAV, and investors settle at this value, reflecting the assets at fair value and the liabilities at amortized cost has the effect of inappropriately valuing the enterprise for investors who have debt at above or below market rates. Said differently, two IPEs with identical investment property investments carried at fair value but financed with debt carrying different interest rates (i.e. Entity A with 8% debt and Entity B with 5% debt) will be valued identically. If current market rates are 6%, Entity A will be overvalued and Entity B will be undervalued.

Finally, many argue that debt should not be reflected at fair value because such debt will not, or cannot, be settled at fair value. However, it is common to refinance debt in periods of declining interest rates. The effect of refinancing is to – on a net present value basis – settle the obligation at current market rates. We see that many companies are completing such refinancing in this declining interest rate environment so as not to suffer future economic losses due to higher than market rates (i.e. avoiding future economic losses). Similarly, organizations with below market rates do not seek to refinance so as to allow the benefits of below market rates to inure to the enterprise over time (i.e. an economic gain).[4]

For the aforementioned reasons, we disagree with the proposal that an IPE should measure its financial liabilities in accordance with other U.S. GAAP, which currently requires amortized cost measurement. Moreover, under the current proposal, an IPE will measure investment properties at fair value with any associated debt at amortized cost. Unless the entity elects to measure the debt at fair value under the fair value option these entities would have accounting mismatches.[5] As stated earlier, investors in such IPEs need to know the current relative funding cost of the entity when they make a decision to invest in it. In addition, fair value changes in the liabilities may offset economically similar changes in investment property assets. Accordingly, we support the fair value treatment of financial liabilities for IPEs on the premise of it providing the most relevant information.

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[4] For a more detailed discussion on this topic please refer to CFA Institute's comment letter dated September 30, 2010 *Proposed Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.*

[5] Investment properties as described in the proposed ASU often have debt associated with them. The debt is typically of one of two forms or a combination of both: non-recourse mortgage debt secured by one or more of the investment properties, or entity level debt that supports the purchase of the properties. In some cases, the latter represents a line of credit drawn upon to facilitate the purchase of the properties and then repaid when subsequent equity capital commitments are funded by the investors. In other cases, the entity level debt is not specifically collateralized by investment properties, but rather by the entity's assets. Unlike other investment vehicles, IPEs would be required to have substantially all of their assets invested in real estate. Therefore, all of the debt would effectively be secured directly (through non-recourse financing) or indirectly (through entity-level financing) by the real estate investment assets that would be measured at fair value. In order to avoid an accounting mismatch the debt would need to be measured at fair value.

We believe fair value is the appropriate measure because fair value reflects assets and liabilities without regard to when those assets and liabilities were acquired increasing comparability across financial statements and appropriately reflecting the value of the entity's assets and liabilities relative to current market conditions – which is the context upon which all investment decisions are made. Failure to reflect assets and liabilities at fair value omits information from the financial statements that may result in information and valuations which are misleading to investors. In particular, fair value information about liabilities provides useful information by telling users about the consequences of past decisions to borrow and the implications of current decisions to maintain or refinance a borrowing.

While our preference is for all financial liabilities to be measured at fair value, at the very least, we urge the Board to require both real estate investment assets and any debt associated with these assets to be measured at fair value to ensure the appropriate valuation of such enterprises.

Financial Statement Presentation Issues

We note below that there are a number of issues with respect to financial statement presentation that remain unaddressed by the Board:

- *Schedule of Investments* – We urge the Board to require entities holding investment properties to present a schedule of investments with comparative information. This is needed to provide users of financial statements with a meaningful analysis of investments including their nature, significance, and geography.
- *Realized Gains* – We recommend that the guidance specify how realized gains should be computed to avoid disparity in those calculations. We believe realized gains should represent the sales price, net of sales costs, reduced by the accumulated cost basis in the property. The accumulated cost basis would be the original cost, including transaction costs, and any subsequent capital improvements or capitalization associated with the property. The guidance should include discussion as to whether other interest capitalization and capitalization of other costs should be required. The basis of the investment properties should not be adjusted for depreciation, or other GAAP that affects the measurement of property, plant, and equipment that is not measured at fair value.
- *Investment Losses* – Guidance should also be provided with respect to equity investments as to the treatment of the funding of any investment losses at the investee level by the investor IPE. We believe such funding should represent an increase in the investor's cost basis of the investment.
- *Advisor Incentive Fees* – The final standard should include accounting and reporting guidance for advisor incentive fees that are based upon the ultimate realized gain or net asset value of the entity. Clarification is needed regarding whether:
  a) IPEs are required to report investment advisor fees within the IPE's financial statements when such entities are managed by third party investment managers and the amounts are paid directly by the investor to the investment manager;
  b) Recognition of real estate fund incentive fee liabilities should be based on a hypothetical liquidation at fair value approach or a Topic 450, *Contingencies,* approach; and
  c) Incentive fees should be presented as a component of net investment income, within realized and unrealized gains (losses), or as an expense in the statement of operations.
- *Impairment Measurements* – Consistent with the guidance in IFRS, we believe the final standard should clarify that the impairment guidance of Topic 360, *Property, Plant and Equipment,* does not apply for purposes of determining realized gains and losses of an investment property that is measured at fair value. That is, we believe any excess of an

investment property asset's cost basis over its fair value should be reported as an unrealized loss rather than an impairment loss that results in a permanent adjustment of the cost basis that affects the amounted of reported realized gain or loss upon disposition of the property.

Disclosures (Question 20)
CFA Institute believes that the disclosure requirements in the Proposed Update are insufficient especially given the increased complexity created by the standard and its entity and management intent bias. We, therefore, propose that the disclosure requirements be expanded to include those listed below.

Valuation – An entity shall disclose:

- The methods and significant assumptions applied in determining the fair value of investment property, including a statement regarding whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data.
- The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent appraiser who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such independent valuation, that fact should be disclosed.

Reconciliation – In addition, we believe an entity should disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:

- additions, disclosing separately those additions resulting from acquisitions of new investment properties and those resulting from expenditures on existing investment properties recognized in the carrying amount of an asset;
- disposals or sales of investment properties;
- changes resulting from acquisitions through business combinations;
- net gains or losses from changes in fair value;
- the effects of foreign currency;
- transfers to from other real estate classifications (i.e. real estate held for sale in the ordinary course of business and owner-occupied property); and
- other changes.

When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements.

Illustrative Examples – We recommend that the Board include illustrative examples with respect to both financial statement presentation and disclosures in the final standard.

Effective Date and Transition (Questions 21 and 23)

Retrospective Approach – CFA Institute supports a fully retrospective approach as it provides investors with the most seamless transition method and preserves comparability between periods. This approach also allows investors to see the impact of a new standard on periods previously reported under the prior standard. Conversely, under the prospective method there is no recasting of prior periods for the effects of the new financial reporting standard. As a result, trends are distorted by the accounting changes.

We, therefore, disagree with the proposal to apply the requirements for IPEs prospectively, with the effect of adoption recognized through a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption.

No Early Adoption – CFA Institute supports the proposition to prohibit early adoption. Allowing entities to early adopt new financial reporting standards introduces complexity for investors who rely on comparability in their analysis. Hence, with respect to the transition approach to new standards, our preference is for a fully retrospective approach with no early adoption.

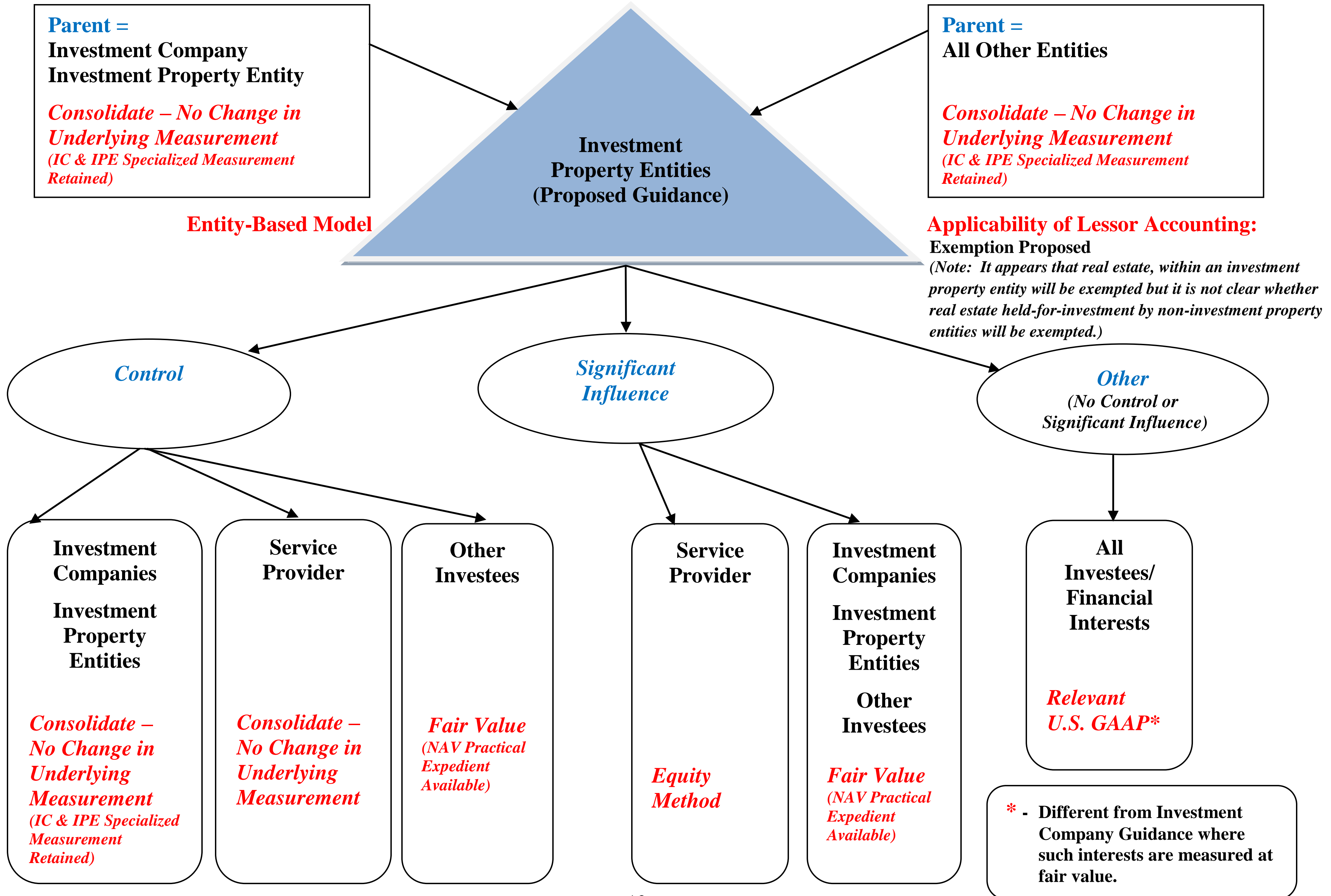
Nonpublic Entities (Question 24)

CFA Institute opposes different reporting standards based on ownership[6] (public, private, nonprofit), size, or industry.

To operate efficiently, capital markets require financial information that is: (a) comparable from firm to firm; (b) relevant to investment and financing decisions; (c) a reliable and faithful depiction of economic reality; and (d) neutral.

Transactions and economic activities that are similar should be reported similarly in financial statements. Alternative accounting for similar events may interfere with the integrity and usefulness of financial reports. Investors make decisions by comparing alternative investments. Permitting an alternative accounting regime for companies that "do not have public accountability" hinders their analysis. Therefore, we prefer that one set of standards apply to both public and nonpublic entities.

[6] There is no well-established definition of what constitutes a non-public or private company.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U.S. Generally Accepted Accounting Principles (U.S. GAAP) – Investment Properties
Parent =
Investment Company
Investment Property Entity
Consolidate – No Change in Underlying Measurement
(IC & IPE Specialized Measurement Retained)
Investment Property Entities (Proposed Guidance)
Parent =
All Other Entities
Consolidate – No Change in Underlying Measurement
(IC & IPE Specialized Measurement Retained)
Entity-Based Model
Applicability of Lessor Accounting:
Exemption Proposed
(Note: It appears that real estate, within an investment property entity will be exempted but it is not clear whether real estate held-for-investment by non-investment property entities will be exempted.)
Control
Significant Influence
Other
(No Control or Significant Influence)
Investment Companies
Investment Property Entities
Consolidate – No Change in Underlying Measurement
(IC & IPE Specialized Measurement Retained)
Service Provider
Consolidate – No Change in Underlying Measurement
Other Investees
Fair Value
(NAV Practical Expedient Available)
Service Provider
Equity Method
Investment Companies
Investment Property Entities
Other Investees
Fair Value
(NAV Practical Expedient Available)
All Investees/ Financial Interests
Relevant U.S. GAAP*
* - Different from Investment Company Guidance where such interests are measured at fair value.

International Financial Reporting Standards (“IFRS”) – Investment Properties