



Summary of FASB Investment Properties Project



The views expressed in this presentation are those of the presenter. Official positions of the FASB are reached only after extensive due process and deliberations.



Agenda

- Background
- Scope – Entity Definition
- Measurement
- Consolidation
- Presentation
- Disclosure
- Transition and Effective Date
- Questions and Answers
- Comparison of IAS 40 and FASB Tentative Decisions

Background

- No guidance in U.S. GAAP for investment properties
 - Lessors of investment properties electing the fair value model under IAS 40 excluded from the proposed lessor accounting model
 - Convergence and adoption of IAS 40
- Fair value requirement rather than option
 - User concerns regarding comparability
 - Scope of requirement
 - Valuation infrastructure
- Modeled off the Investment Company Definition

Scope – Entity Definition

- *Nature of the Business Activities.* The entity's primary business activities relate to investing in real estate properties.
- *Express Business Purpose.* The express business purpose of the entity is to invest in real estate properties for total return including an objective to realize capital appreciation, for example, through disposal of its real estate properties. The entity does not primarily hold real estate properties for any of the following purposes:
 - Use in the production or supply of goods or services or for administrative purposes
 - Rental income only
 - Sale in the ordinary course of business.

Scope – Entity Definition

- *Unit Ownership.* Ownership in the entity is represented by units of investments, such as shares or partnership interests, to which proportionate shares of net assets can be attributed.
- *Pooling of Funds.* The funds of the entity's investors are pooled to avail the investors of professional investment management. The entity has investors who are unrelated to the parent (if any), and in aggregate hold a significant ownership interest in the entity.
- *Reporting Entity.* The entity reports financial information about its investment activities to its investors. The entity can be, but does not need to be, a legal entity.



Scope – Single Investor Exception

- Entities with only one investor that accounts for its investments at fair value under U.S. GAAP are not subject to the *unit ownership* and *pooling of funds* criteria
 - Examples include entities wholly owned by:
 - Pension funds
 - Endowment funds
 - Investment companies

Measurement

- Real estate investment property measured at fair value with all changes in fair value recognized in net income
- Noninvestment properties measured in accordance with other U.S. GAAP
- No practicability exception to fair value for investment properties under construction
- Right-of-use assets relating to investment properties measured at fair value
- Rental revenue on investment properties recognized on a straight-line basis



- Controlling interests in other investment property entities would be accounted for in accordance with Topic 810 on consolidations
- Investment property entities prohibited from consolidating controlling interests in non-investment property entities. Those controlling interests would be measured at fair value.
 - Exception for controlling interests in entities that provide services to the investment property entity parent (e.g., property maintenance subsidiary)

- An investment property entity would present the following items separately on the face of the financial statements related to investment property investments:
 - Rental income
 - Rental expenses
 - Fair value of investment properties
 - Debt

- Investment property entities required to disclose:
 - Its policy for classifying investment property
 - Direct operating expenses, separately for investment property that generated rental income during the year and investment property that did not generate rental income during the year
 - Any restrictions on the ability to increase rent, collect rental income, or collect proceeds on the sale of investment property
 - Any contractual obligations related to investment property.
- All other relevant disclosures under U.S. GAAP still apply (fair value and lessor disclosures)

Transition and Effective Date

- Adjustment to the opening balance of retained earnings in the period of adoption
- Effective date to be determined after exposure process



Comparison of IAS 40 and FASB Tentative Decisions

	IAS 40	FASB ED
Scope	<ul style="list-style-type: none"> Applies to all entities on a property-by-property basis. 	<ul style="list-style-type: none"> Applies to an entity that meets certain criteria
Definition	<ul style="list-style-type: none"> Investment Property (land or building—or part of a building—or both) held to earn rentals or for capital appreciation or both 	<ul style="list-style-type: none"> Investment Property Entity that invests in real estate properties for total return including an objective for capital appreciation
Measurement	<ul style="list-style-type: none"> Option to measure investment property either at fair value or at cost 	<ul style="list-style-type: none"> Requirement to measure real estate investment properties at fair value



Comparison of IAS 40 and FASB Tentative Decisions

	IAS 40	FASB ED
Fair value changes	<ul style="list-style-type: none"> In net income 	<ul style="list-style-type: none"> In net income
Realized gains/losses	<ul style="list-style-type: none"> In net income 	<ul style="list-style-type: none"> In net income
Rental income on investment properties	<ul style="list-style-type: none"> Not specified (generally straight-line) 	<ul style="list-style-type: none"> Straight-line basis
Leasehold interests (right-of-use assets) in investment properties	<ul style="list-style-type: none"> At fair value with changes in fair value recognized in net income 	<ul style="list-style-type: none"> At fair value with changes in fair value recognized in net income
Leasehold interests (right-of-use assets) in noninvestment property assets	<ul style="list-style-type: none"> At amortized cost, consistent with the leases standard 	<ul style="list-style-type: none"> At amortized cost, consistent with the leases standard

