NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

October 20, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: File Reference No. 1820-100, *Revenue from Contracts with Customers*

Dear Sir/Madam:

We are pleased to submit this comment letter in response to the Financial Accounting Standards Board's (FASB) and the International Accounting Standards Board's (IASB) joint Exposure Draft on *Revenue from Contracts with Customers* (the Exposure Draft). NAREIT is submitting these comments on behalf of the Real Estate Equity Securitization Alliance (REESA). This alliance includes the following organizations:

Asia Pacific Real Estate Association (APREA)
Association for Real Estate Securitization in Japan (ARES)
British Property Federation (BPF)
European Public Real Estate Association (EPRA)
National Association of Real Estate Investment Trusts (NAREIT)® (U.S.)
Property Council of Australia (PCA)
Real Property Association of Canada (REALpac)

The purpose and activities of REESA are discussed in Appendix I. Members of the organizations identified above would be pleased to meet with the Boards or staff to discuss any questions regarding our comments.

We thank the FASB and the IASB (collectively, the Boards) for the opportunity to comment on this important proposal. If you would like to discuss our comments, please contact George Yungmann, NAREIT's Senior Vice President, Financial Standards at gyungmann@nareit.com or 1-202-739-9432.

Respectfully submitted,

George Yungmann
Senior Vice President, Financial Standards

Sally Glenn
Director, Financial Standards

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Comment Letter Submitted by the

National Association of Real Estate Investment Trusts (NAREIT)® (U.S.)

On behalf of the following members of the
Real Estate Equity Securitization Alliance (REESA):

Asia Pacific Real Estate Association (APREA)
Association for Real Estate Securitization in Japan (ARES)
British Property Federation (BPF)
European Public Real Estate Association (EPRA)
National Association of Real Estate Investment Trusts (NAREIT)® (U.S.)
Property Council of Australia (PCA)
Real Property Association of Canada (REALpac)

In response to the

Exposure Draft

Revenue from Contracts with Customers

Issued by the Financial Accounting Standards Board and
International Accounting Standards Board

June 2010

NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

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Re: File Reference No. 1820-100, *Revenue from Contracts with Customers*

Dear Sir/Madam:

REESA represents publicly traded real estate companies and Real Estate Investment Trusts (REITs) throughout the world. Members of REESA organizations are real estate companies and other businesses that primarily develop, own, operate and finance investment property, as well as those firms and individuals who advise, study and service those businesses.

REESA strongly supports the harmonization of global accounting and financial reporting and understands the importance of achieving a high quality universal set of accounting standards. We have been fully engaged in the Boards' discussions on major convergence projects and have actively participated in meetings with the Boards and their staff with respect to these projects. REESA greatly appreciates the opportunities to express our global views through these meetings and comment letters.

In June 2009, REESA submitted a comment letter in response to the Boards' Preliminary Views Documents on revenue recognition from contracts with customers. As provided in more detail below, we are pleased that the Boards have subsequently addressed certain concerns raised in our letter.

At the time of the Boards' preliminary views, the Boards had not yet determined how the proposed revenue recognition principles would be applied to lessor accounting. In our 2009 letter, REESA recommended that revenue from leases of investment property should be recognized on a basis that reflects the continuous transfer of services.

However, now that the Boards have decided to exclude leases from the scope of the revenue recognition proposal, we will further provide our views with respect to lessor accounting for investment property leases in our response to the Boards' lease accounting proposal.

Overview

Consistent with our support of achieving a high quality global set of accounting standards, REESA applauds the Boards for developing a converged proposal on revenue recognition. We acknowledge the challenges involved in standard setting and value the Boards' dedication toward delivering high quality global solutions.

While we discuss certain specific concerns with the Exposure Draft below, we support the general framework of the revenue recognition proposal. REESA believes that the proposed revenue recognition standard would generally improve financial reporting by more faithfully reflecting the substance of real estate sales transactions in the financial statements.

Sales of Real Estate

Scope of the Proposal

REESA generally supports applying the Boards' proposal to the accounting for *all* sales of real estate. Prior to the release of the Exposure Draft, NAREIT and REALpac had the privilege to discuss with the FASB the impacts of the Boards' preliminary revenue recognition views on real estate sales accounting. At the time, the scope of the proposed model included only those sales representing outputs of an entity's ordinary activities. NAREIT and REALpac representatives expressed to the Board their primary concern that the proposed accounting would not be the same for *all* sales of real estate.

We appreciate the Boards' response to this concern by expanding the scope as reflected in the Exposure Draft so that identical transactions, despite whether or not they represent outputs of an entity's ordinary activities, would now result in similar reporting.

However, we believe that an area requiring clarification is whether sales of equity interests in entities that substantially own real estate would be accounted for in accordance with the Exposure Draft. REESA's view is that the proposed revenue recognition principles should apply to these sales. It would be useful if the final standard clearly stated whether these sales would be included in the scope. In this regard concerning U.S. accounting literature, clarification is needed in terms of the interaction with Accounting Standards Codification Subtopic 810-10, "Consolidation – Overall" and Emerging Issues Task Force Issue No. 10-E, "Accounting for Deconsolidation of a Subsidiary that is In-Substance Real Estate."

The Concept of Control

REESA agrees with the Exposure Draft's overarching principle that revenue is recognized when control transfers to the customer and supports the Boards' proposed guidance on control.

We specifically favor the guidance on protective rights, a concern that we raised in our 2009 letter. For example, we agree that the absence of legal transfer of title to real estate sold would not preclude revenue recognition assuming the transfer of control, if the seller retains title to secure payment. REESA would apply this guidance to anti-speculation clauses (*e.g.*, clauses that require the buyer to develop land in a specific manner or within a stated period of time) and other protective rights commonly included in real estate sales contracts giving sellers the right to reacquire the property upon noncompliance by the buyer. Perhaps some examples could be added to the implementation guidance in this regard.

Sales Involving Seller Financing

While REESA generally agrees with the proposed principles around control, we believe that it would be beneficial if the final standard would provide further guidance with respect to the transfer of control in the context of the accounting for sales that involve seller financing.

When the seller provides financing related to the sale, REESA believes that seller financing and the asset sale should be accounted for as two separate transactions as long as the buyer has the ability to direct the use of the asset sold and receive the benefit from the asset. In this case, we believe that revenue would be recognized under the Exposure Draft and the seller's receivable would be accounted for under the standards for financial instruments.

Sale and Repurchase of an Asset

REESA requests that the Boards refine the guidance on accounting for the sale and repurchase of an asset to maintain consistency throughout all standards. REESA recognizes that the guidance in the revenue recognition proposal for the sale and repurchase of an asset is consistent with the Boards' proposed control-based revenue recognition model. However, in determining whether a sale has transpired with respect to sale and repurchase agreements, REESA believes that the revenue recognition proposal may conflict with the proposed lease accounting guidance.

As a consequence, these proposals may lead to significantly different accounting results. For sales of real estate when the seller has a call option or forward to reacquire the real estate, the proposed revenue recognition principles would preclude sale recognition due to the lack of control by the buyer. When the buyer has the unconditional right requiring the seller to repurchase the real estate (a put option), the revenue recognition proposal would generally allow sale recognition. The Boards' view is that the seller relinquishes control in a sale and repurchase agreement that represents a put option.

Conversely, in determining whether an asset has been sold with respect to accounting for sales and leaseback transactions, the proposed guidance in paragraph B31(a) of the Leases Exposure Draft implies that a sale and repurchase of an asset representing a call option or forward may result in sale recognition, if the repurchase price is measured at fair value at the time of repurchase. Further, the proposed lease accounting guidance contradicts the revenue recognition proposal in that the lease guidance would prohibit sale recognition for real estate sales with put options, while the revenue recognition proposal would not.

Variable Consideration

We appreciate the additional guidance in the Exposure Draft that the Boards have developed since their preliminary views concerning the accounting for variable consideration. However, consistent with our response to the Boards' preliminary views, REESA continues to believe that variable consideration should be recognized only when the contingency has been resolved. We support this approach because it would represent the most objective recognition of revenue.

Transition

REESA requests that the Boards *permit*, rather than require, the retrospective application of the final revenue recognition standard. An alternative would be to allow prospective application with disclosures provided in the notes to the financial statements to assist users with comparative information for the reporting periods being presented.

Other Concerns

In the IASB Exposure Draft, REESA believes that the consequential amendment to IAS 40 *Investment Property* (IAS 40) proposing to remove the current scope exclusion in paragraph 9(b) for property being constructed or developed on behalf of third parties could be misconstrued. The elimination of this scope exclusion may be interpreted as if these properties would be accounted for in accordance with IAS 40. We believe that further clarification by the IASB would be helpful.

Again, REESA commends the Boards on developing a fully-converged, comprehensive standard on revenue recognition. We appreciate the opportunity to share our views with the FASB and the IASB and welcome the Boards' questions on our comments.

Respectfully submitted,

Asia Pacific Real Estate Association

Association for Real Estate Securitization (Japan)

British Property Federation

European Public Real Estate Association

National Association of Real Estate Investment Trusts (United States)

Property Council of Australia

Real Property Association of Canada

REESA – The Real Estate Equity Securitization Alliance

The real estate industry has responded positively to the challenges presented by the developments in the global economy and, in particular, the global real estate markets. Collectively the organizations in REESA are responsible for representing a large proportion of the global real estate market. The benefits of collaboration on a global scale are increasingly valuable on major industry issues such as the sustainability of the built environment, tax treaties, corporate governance and research.

The formation of REESA was, in part, a direct response to the challenge and opportunity presented by the harmonization of accounting and financial reporting standards around the world. Given the size and importance of the real estate industry, our view is that there are considerable benefits to be gained by both accounting standard setters and the industry in developing consensus views on accounting and financial reporting matters, as well as on the application of accounting standards. Associations represented thus far in the alliance include:

- Asia Pacific Real Estate Association, APREA
- Association for Real Estate Securitization in Japan, ARES
- British Property Federation, BPF
- European Public Real Estate Association, EPRA
- National Association of Real Estate Investment Trusts, NAREIT®
- Property Council of Australia, PCA
- Real Property Association of Canada, REALpac

Since its formation REESA members have exchanged views on a number of accounting and tax related projects and shared these views with regulators and standards setters. These projects include:

- FASB/IASB Lease Accounting
- FASB/IASB Financial Statement Presentation
- FASB/IASB Reporting Discontinued Operations
- FASB/IASB Revenue Recognition
- IASB Fair Value Measurement
- IASB Income Tax
- IASB Real Estate Sales – IFRIC D21
- IASB Capitalization of Borrowing Costs – IAS 23
- IASB Accounting for Joint Arrangements – ED 9
- IASB Consolidated Financial Statements – ED 10
- IASB 2007/2008/2009 Annual Improvements to IFRS
- OECD developments on cross border real estate flows and international tax treaties