CENTER FOR CAPITAL MARKETS COMPETITIVENESS

TOM QUAADMAN
VICE PRESIDENT

1615 H STREET, NW
WASHINGTON, DC 20062-2000
(202) 463-5540
tquaadman@uschamber.com

February 8, 2012

Ms. Leslie Seidman
Chairman
Financial Accounting Standards Board
301 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-05116

Re: FASB Proposed Accounting Standards Update on Financial Services – Investment Companies (Topic 946) (File Reference No. 2011-200) and FASB Proposed Accounting Standards Update on Real Estate – Investment Property Entities (Topic 973) (File Reference No. 2011-210)

Dear Chairman Seidman:

The U.S. Chamber of Commerce (the "Chamber") is the world's largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy.

To achieve these goals, the CCMC has been a strong supporter of a single set of global accounting standards and has backed efforts to improve standards and reduce complexity through the convergence of U.S. Generally Accepted Accounting Principles ("US GAAP") and International Financial Reporting Standards ("IFRS").

While the CCMC appreciates the efforts of the Financial Accounting Standards Board ("FASB") in issuing the *Proposed Accounting Standards Update on Financial Services – Investment Companies (Topic 946)* (FASB File Reference No. 2011-200) and *Proposed Accounting Standards Update on Real Estate – Investment Property Entities (Topic 973)* (FASB File Reference No. 2011-210) (the "Proposals"), we have serious concerns that the Proposals do not advance accounting convergence overall and would instead exacerbate financial reporting complexity. Accordingly, we believe the Proposals should undergo extensive review and reconsideration.

Convergence

The CCMC recognizes that the Proposals stem from the efforts of FASB and the International Accounting Standards Board ("IASB") to promote the convergence of U.S. GAAP and IFRS.[1] However, these Proposals miss the mark in important and fundamental ways.

While the Proposed Update to Topic 946 is the result of the efforts of the FASB and IASB to develop consistent criteria for an entity to be an investment company, the FASB has expanded this proposal by stating that an entity covered under the Investment Company Act of 1940 would be an investment company for financial reporting purposes under U.S. GAAP. Further, the FASB is also proposing that if an investment company meets the criteria to be an investment property entity under the Proposed Update to Topic 973, it would apply the requirements in that proposed Update.

The IASB's IAS 40 on *Investment Property* provides accounting guidance for reporting investment property across all industries. The IASB has not proposed specific guidance to define an investment property entity. On the other hand, in the Proposed Update to Topic 973, the FASB is proposing amendments that attempt to create a standard based on the type of entity holding the property and would require an entity to determine whether it meets all of five criteria to be an investment property entity. These criteria relate to the nature of the business activities, express business purpose, and unit ownership, pooling of funds, and reporting entity.

In addition, the Proposed Update to Topic 973 does not recognize the significant distinction between the business and relevant financial reporting of owning

---

[1] This includes the FASB and IASB joint project on accounting for leases. Under that project, the IASB decided that if a lessor measures its investment properties at fair value, it would not be required to apply the proposed lessor accounting requirements. It appears that the FASB intends the Proposed Update to Topic 973 to provide fair value accounting to a broader spectrum of real estate investments in order to offer similar relief to U.S. GAAP reporting entities under the proposed lease accounting rules. The CCMC has sent several individual and joint letters to both the IASB and FASB regarding the joint lease accounting project.

and operating investment property and simply holding real estate as a passive investment. Further, applying the proposed criteria would create different accounting treatments for basically the same business of holding investment properties and would result in a multitude of accounting differences among these various entities that are performing essentially the same activities and services.

The Proposed Update to Topic 946 would also result in differences between the accounting requirements for reporting in the standalone financial statements of investment companies that report under U.S. GAAP and IFRS. And, it would result in differences between U.S. GAAP and IFRS in how noninvestment company parents would account for their interests in investment companies.

Because of these differences, the potential exists that the FASB proposals will create accounting arbitrage driving economic activity instead of reporting economic activity.

Complexity

As a result of these differences between FASB and the IASB, the Proposals will add to the complexity of financial reporting. This occurs not only because of the inability to promote convergence as stated earlier, but also because of the nature of the FASB proposal itself. In this regard, the Proposals are inconsistent with the report of the SEC's Advisory Committee on Improvements to Financial Reporting ("CIFiR").

For example, CIFiR recommended that accounting standards should "focus on the nature of the business activity itself, since the same activities, such as lending, may be carried out by companies from different industries"[2]. This suggests that a standard providing guidance for investment property should apply to all investment property regardless of the industry, legal structure, or entity in which the owner/operator of the property resides or whether it comprises substantially all of the entities' operations or only one of its activities.

[2] See the Final Report of the SEC's Advisory Committee on Improvements to Financial Reporting, August 1, 2008, Page 5.

CIFiR also recommended that the FASB take a more principles-based approach to accounting standards setting. In the context of the Proposals, this would include the FASB developing a more principles-based approach to accounting for investment activities.

While these are just two examples, they illustrate how considering and applying the CIFiR recommendations could significantly improve the substance of the Proposals, while not only avoiding increasing the complexity of financial reporting, but reducing it.

***

In conclusion, the CCMC appreciates the opportunity to comment on the Proposals. The CCMC encourages the FASB to take the necessary time and effort to reconsider the Proposals, as the interests of all stakeholders are best served by the promulgation of accounting standards that will serve the test of time.

Thank you for your consideration and the CCMC stands ready to assist in these efforts.

Sincerely,

Tom Quaadman