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Reporting by Real Estate Companies of Supplemental Current-Value Information

Pat

A I C P A

INTERNAL MEMORANDUM

Date: February 10, 1995

To: Karen Neloms, Library

From: Richard Stuart, Accounting Standards File 4210.CV

Subject: Comment letters

Enclosed are comment letters received on AcSEC's October 10, 1994 exposure draft, Reporting by Real Estate Companies of Supplemental Current-Value Information.

The letters should be available for public inspection at the library until February 10, 1996.

Rich

Enclosure

Kevin Wilson NO AFFILIATION
1535 Parker Street
Bronx, New York 10462
November 10, 1994

Richard Stuart, Technical Manager
Accounting Standards Division, File 4210-CV
AICPA, 1211 Avenue of The Americas
New York, N.Y 10036-8775

Dear Mr. Stuart,

I agree with the exposure draft to report current value information supplementally by Real Estate Companies. This would also very useful in other industries, such as insurance and mutual funds. This would enable readers of the financial statements with better understanding of a Companies progress or decline in business profitability.

Also, if large portions of assets or liabilities are very old, disclosures could explain the amounts these items are, the date of the transaction, and the reasons for the changes.

Other statements, such as the Income, Retained Earnings, and Cash flows could show current values. For cash flows, Operating Activities could be increased by a certain multiple, or the consumer price Index, and the investing and financing activities by current prices to reflect inflation or price increases.

For the balance sheet, I think all accounts should show current values, even cash. If an average cash balance was computed for the year, and then adjusted for a stated interest rate it may show a current, but not 100% accurate balance.

Also, I think a current value reserve account should be set up. In the beginning of a year, a companies man-

gement could project the current value increase for th
year for each account affected. This incr. as in totals
ould be put into a reserve account. When the current
values are calculated, they can be taken out of the
serve account and variances, whether favorable or
nfavorable could be noted. This would be a budgeting
chnique. It could be called Estimated Increase (decrease)
n current values. I think current values should apply
o all industries. This supplemental information should be also
hown for companies doing business in other countries and the
ted States, showing translation gains,
sses, and remeasurement.

Sincerely,

Kevin Wilson

Proposed SOP, *Reporting by Real Estate Companies of Supplemental Current-Value Information*

Comment letter No. 2
Received from:

Earl Rodney, CPA, P.A.
8405 NW 66 St., Suite A
Miami FL 33166

Received handwritten on postcard
Retyped for legibility

I <u>oppose</u> issuance of proposed SOP "Reporting by Real Estate Companies of Supplemental Current-Value Information". I believe the proper definition of "current value" is "fair market value" or appraised value" in the case of real estate. There is no restrictions on reporting appraisal values now as supplementary disclosures but such data can be manipulated, so I believe we should continue <u>historical costs</u> as GAAP. I am opposed to any "discounted cash flows" type of reporting, and believe in <u>present values</u> in estimating future cash flows. There is a chronic case of "standards overload" already, and your SOP will only add to the confusion. This SOP is unnecessary and can even be misleading. What is "voluntary" today will be mandated tomorrow.

I <u>oppose</u> issuance of proposed SOP "Reporting by Real Estate Companies of Supplemental Current-Value Information". I believe the proper definition of "current value" is "fair market value" or "appraised value" in the case of real estate. There is no restrictions on reporting appraisal values now as supplementary disclosures but such data can be manipulated so I believe we should continue <u>historical costs</u> as GAAP. I am opposed to any "discounted cash flows" type of reporting and believe in <u>present values</u> in estimating future cash flows. There is a chronic case of "standards overload" already and your SOP will only add to the confusion. This SOP is unnecessary and can even be misleading. What is "voluntary" today will be mandated tomorrow.

January 6, 1995

Richard Stuart, Technical Manager
Accounting Standards Division
File 4210.CV AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Richard:

The National Association of Real Estate Companies (the "Association") is pleased to respond to the Exposure Draft (ED) on the Proposed Statement of Position, "Reporting by Real Estate Companies of Supplemental Current Value Information". The Association is comprised of real estate developers, owners and managers representing a diverse cross section of the real estate industry. In such regard, the Association has the following comments on the ED for your consideration.

The Association's most significant issue relates to computing deferred income taxes based on the discounted value of income taxes payable with a deemed sale after 15 years. The assumption of a deemed sale after 15 years is (1) arbitrary and (2) can result in a significant misstatement of the deferred income tax liability (on a discounted basis) where the intention of the entity is to realize values through operating cash flows over the property's useful life. In paragraph 20 of the document related to disposal costs, an entity is permitted to make the assumption that certain property held for long-term investment will be used until the end of its useful life (no anticipated sale or residual value) and its value can be realized from the operation of the property rather than through a sale. We believe the holding period assumed in computing the deferred tax liability should be consistent with management's intentions for holding and operating properties and with the assumptions permitted elsewhere in the document.

Post Office Box 958 Columbia, Maryland 21044-0958 (410) 821-1614 Fax (410) 992-6363

The Association also takes issue with the ED's guidelines for valuing land. The ED provides in paragraph 24 that the most common method for valuing land is the comparable sales method and in paragraph 25 that the development method is more subjective and should be used only if insufficient information is available to use the comparable sales method. Our experience indicates that in cases where an entity controls large tracts of land which will be developed and sold over relatively long periods, the development method results in a more appropriate current value than the comparable sales method. We believe the SOP should allow for the use of the development method as a primary method of valuing land under the circumstances described above.

Other items of clarification are summarized below:

- If property maintenance costs are capitalized as deferred costs and billed to tenants over several years, they become a component of cash flow generating a property's value and should not be valued or reported separately. If these costs are classified as a receivable, and collectible over several years, the value should be determined based on cash flow discounted at a rate commensurate with the risk associated with the property.

- The value of debt noted in paragraph 37 should include the effects of derivative financial instruments, such as swaps and interest rate caps.

- The disclosure requirements in paragraph 43 of the SOP indicate consideration should be given to expanded disclosure on various assumptions used to develop current value, if significant. No single assumption is any more meaningful than another since all assumptions are integral in determining current value. Therefore, we believe it is inappropriate to select and highlight certain assumptions and not others. Accordingly, management should determine the appropriate level of disclosure required to provide investors with an understanding of how current value was developed and information necessary to make informed judgments with respect to the entity's financial position.

We appreciate the opportunity to respond to the ED and hope our comments are helpful in finalizing the document on current value.

Very truly yours,

Robert A. Wilkins, Chairman
Financial Accounting Standards Committee
National Association of Real Estate Companies

Certified Public Accountants

317 South University Drive
Fargo, North Dakota 58103
Telephone (701) 237-6022
Fax (701) 280-1495

Harris W. Widmer
Robert J. Roel
Charles E. Nord
Stan N. Sandvik
Terrence P. Delaney

January 4, 1995

Richard Stuart
Accounting Standards Division
File 4210.CV
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

I am responding to the Exposure Draft of the Proposed Statement of Position, Reporting by Real Estate Companies of Supplemental Current-Value Information dated October 10, 1994.

Scope - The scope of the SOP appears appropriate and does provide useful information to users of real estate activity companies.

Underlying Principles - The underlying principles appear to be consistent with those in practice, especially FASB107, Disclosures about Fair Value of Financial Instruments. In principle, the information is useful, however, the methods of determining current values is so varied and the assumptions used can produce such different results that consistency may become a problem. Should prior years information be restated if assumptions or methods change from year to year, if both years are presented? There may be difficult audit/presentation issues to deal with.

Disclosures - The disclosure samples presented in the SOP are very good. One concern of the disclosure is the basic statements may become secondary to the current-value statements, since many users are very interested in the current value of the assets.

Terrence P. Delaney

Respectfully submitted,
Terrence P. Delaney, CPA

MEPC American Properties Inc.
15303 Dallas Parkway
Suite 400, LB 5
Dallas, Texas 75248
Telephone (214) 980-5000
Facsimile (214) 980-5094

January 9, 1995

TELEFAX

Mr. Richard Stuart
Accounting Standards Division
File 4210.CV
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Reporting by Real Estate Companies of Supplemental Current Value Information, proposed statement of position

Dear Mr. Stuart:

MEPC is an international real estate company with over $1 billion of assets in the U.S. We believe current value reporting is very important to the real estate industry and are very encouraged by the proposed SOP. We do have the following comments for your consideration.

As proposed, the underlying principle for the SOP is to present the current values applicable to the entity, based on its intent and ability to realize asset values and settle liabilities. As noted in paragraph 10., the SOP recognizes that this approach may differ from the concept of market value as defined by appraisers. While we appreciate the theoretical basis for this method, we believe this approach does not produce information that is relevant to users of the financial statements. Stockholders, lenders, vendors and other users want information concerning the market value for the company's property investments. These users want to know the reasonable value of the assets to determine returns on investment, assess the current state of loan-to-value ratios and analyze other information not found in cost basis financial statements. No amount of disclosure or education is going to change this expectation. If the statements are produced on a different basis or a basis that the user does not understand, the SOP will fail to achieve its objective of providing relevant and helpful information.

Second, as we understand the application of the SOP, the valuations are based on the discounted amount of net cash flows expected to be realized by the entity, given its assumed method of operating or disposing of properties. In many cases, this is identical to what appraisers or investors do, but they use market driven assumptions. It is quite common for companies to prepare internal valuations based on long holding periods, usually in excess of 10 years. However, it is very rare for the property to be held for this entire period. It is our experience that real estate owners consider all properties held-for-sale and are only waiting for the right offer. In most cases, the buyer will eventually surface or the owner will eventually decide to sell. If a company is allowed to manipulate current value information based on its perceived operational intent, and these values end up differing from realized dispositions, the credibility of the information will come into question. There is already a considerable degree of mistrust for all real estate appraisal information. Allowing this degree of subjectivity will increase this suspicion. We believe current value statements should provide for the highest available degree of objectivity, and accordingly, strongly recommend that the basis of the supplemental information be market values obtained by employing generally accepted appraisal methods. We believe the instances where the market value does not fully incorporate an entity's unique abilities, circumstances or intent are far too limited to justify a departure from a market valuation approach.

In summary, we believe an entity approach to valuations will not meet the expectations of users and is too subjective. However, if the Committee still believes that valuations should be based on the entity's intent and ability, then we have two suggestions that might reconcile the two approaches. One method would require that there is a strong presumption that a property's market value is the same as the entity's value and only when the entity can tangibly demonstrate the reasons for such a difference would the company be allowed to use a non-market valuation. These exceptions should be rare and the basis for these valuations would be fully disclosed.

A second method to reconciling the problem is to take an approach similar to the requirements found in FAS 115, "Accounting for Certain Investments in Debt and Equity Securities." FAS 115 categorizes investments as either trading properties, available-for-sale or held-to-maturity based on the entity's ability and intent. The same approach could be taken for real estate. If the entity has the ability and intent to hold the property until the end of its life so that it fully realizes the asset value without a market disposition, the entity can value that property based on the entity's intent and ability. If the entity does not have this ability or intent and the market's assumptions will eventually determine the property's value, then the property is valued based on its market value. Since it is extremely rare that a real estate owner holds a property for its entire remaining life, most properties would be classified as available-for-sale and valued at market value.

We believe that either of these methods would primarily result in market valuations, the information that users want, but still provide some flexibility for unusual circumstances. If the committee does choose to utilize market-based valuations or to adopt either of the above two methods, we would suggest that the market valuations include a deduction for selling costs and that taxes be based on "Method 2" of paragraph 40.

Should the Committee chose to keep the entity concept of valuations as currently drafted, we would make the following additional comments.

1. **Despite the SOP's approach in valuing properties according to the entity's ability and intent, the actual application of the valuation process is based on market rates. We believe this is inconsistent and recommend that valuation assumptions be based on the entity's actual experience. For instance, discount rates used in present valuing property cash flows should be based on the entity's own cost of capital. Similarly, mortgages and other long-term liabilities should be valued based on the entity's financing sources on terms that it expects to achieve. This last point would eliminate a needless valuation change on long-term debt, which occurs when the debt's initial interest rate is compared to lower interest rates associated with shorter maturities. If a company expects to finance its properties with 10-year maturities, the applicable 10-year rate should be used for valuations, not the remaining term as it declines each year.**

2. **Per paragraph 20. and paragraph 41., a company is allowed to exclude selling costs or use a 15-year period for estimating its tax liability if the company intends to hold the property for its entire remaining life (or in the case of taxes, at least 15 years). We believe that there are very few companies that can make this statement, particularly when it is not uncommon for an office building or a shopping center to remain in use for in excess of 25 years. Except for situations where a property is acquired with the intent of razing it, it is very rare that a company will own a property for its entire remaining life. To provide as much comparability between companies as possible, we recommend that selling costs be deducted in all cases and that taxes be calculated using "method 2" of paragraph 40. The use of any other period will be too arbitrary.**

3. **The scope of the statement is limited to entities, substantially all of whose assets are real estate and substantially all of whose operations consist of real estate activities. We would ask that this section be clarified. Although we consider ourselves a pure real estate company, we do engage in certain related real estate activities. When we sell properties, we will take back a mortgage receivable. We also manage properties for a fee and at times will invest significant amounts of surplus cash in marketable debt securities. We would expect that these types of activities would not prevent us from applying the SOP and would suggest that paragraph 5 be expanded to include these types of activities. Although we would prefer that an exact percentage not be included, if one is needed to clarify the scope of the SOP, we would suggest a 50% criteria with an exclusion of cash and marketable debt securities for the asset test and interest revenue, management and other fees for the operations test.**

We appreciate the opportunity to respond to the proposed SOP and hope our comments are helpful .

Sincerely,

Howard Garfield
Vice President, Finance

HG\RP

LT\AICPA.HG

(5)

660 Newport Center Drive, Suite 800
Newport Beach, California 92660

Telephone 714.640.5000
Facsimile 714.644.7909

Kenneth Leventhal & Company

January 10, 1995

Mr. Richard Stuart
Technical Manager
Accounting Standards Division
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Re: File 4210.CV

Dear Mr. Stuart:

Kenneth Leventhal & Company congratulates the AICPA and its Real Estate Committee for drafting a comprehensive guide to the preparation of current value financial statements. Generally, we agree with the content of the proposed Statement of Position ("SOP") "Reporting by Real Estate Companies of Supplemental Current-Value Information" and believe it will be extremely helpful to practitioners and should promote consistency in the reporting of current value by real estate companies.

We have the following comments for your consideration on the proposed SOP:

(1) Page 10, Paragraph 10 - The reference to net realizable value in the first sentence should be reconsidered in light of the FASB's impairment of long-lived assets project and their decision to eliminate this valuation method for real estate. Accordingly, it may be appropriate to eliminate the reference to net realizable value and include a new reference to fair value.

(2) Page 13, Paragraph 22, First bullet point - The discussion on capitalization and discount rates should include the principal factors which influence the selection of these rates and the available sources for this type of information.

(3) Page 16, Paragraph 41, First bullet point - Including future corporate overhead in the calculation of the income tax liability for current value purposes is specifically prohibited by the proposed SOP. Singling out and excluding the administrative cost of generating future taxable income from the projection used to compute the income tax liability for current value purposes appears inconsistent with the methodologies used elsewhere in the proposed SOP and the "value to the entity" concept. The projected future taxable income of an entity used to calculate

income taxes for current value purposes should be based on the plans and intentions used by management to value the entity's assets and should contain all the items of future taxable income and expense to be generated by the entity. The income and expenses generated by the entity's real property, interest on cash balances, corporate overhead and all other items of projected taxable income and expense should be included in the computation.

(4) Page 16, Paragraph 41, Second bullet point - The proposed SOP states that the determination of the entity's income tax liability should exclude the future costs and revenues relating to projects that are not under development and projects not scheduled to commence construction within one year of the balance sheet date. Both proposed exclusions in our opinion are arbitrary standards, albeit for differing reasons. The propriety of including future projects should be based on an entity's intent, ability and track record of accomplishing similar projects. The SOP's existing wording could be retained if a qualifier were added which would indicate the standard as currently written would apply unless:

(a) the entity has the intent, ability and track record of accomplishing similar projects; and

(b) the entity currently owns or has under binding option the real property which will be the basis for the future project(s).

(5) Page 17, Paragraph 41, Third bullet point - The proposed SOP states that calculations for purposes of estimating current value income taxes must assume a sale of assets expected to be held beyond 15 years in the 15th year. An assumed sale in the 15th year is an arbitrary cut-off point and inconsistent with existing industry practice. Current industry practice uses 30 to 40-year projection periods which correspond to the economic life of most real estate assets. No significant practice problems have arisen from the use of this methodology. Additionally, both long-term (eg: 30 to 40- year) and short-term (eg: 10 to 15- year) projections which use properly coordinated inflation, discount and capitalization rates will mathematically produce similar values. Therefore, there is no need to require an arbitrary 15-year tax projection period.

(6) Page 20 - The illustrative statement of changes in revaluation equity should be expanded to demonstrate how an entity would disclose and present transfers from one asset category to another. In addition, consideration should be given to providing guidance on how to compute the various line items in the statement.

(7) Page 21, Footnote (a), Third Paragraph - The language utilized in this pro forma footnote disclosure should be conformed to the wording contained in the interpretation to SAS 62 by including a reference to market value and stating that amounts ultimately realized from the disposal of the properties may vary significantly from the current values presented. As suggested in comment (1) above, it may also be appropriate to eliminate the reference to net realizable value and include a new reference to fair value.

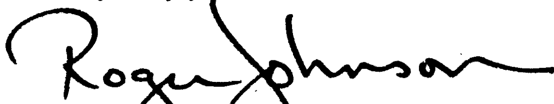
(8) Other matters:

(a) Guidance should be provided on the valuation of contingent liabilities, including those relating to environmental matters, if their recordation or measurement for current value purposes differs from historical cost accounting standards.

(b) Existing practice for public companies that present current value information is to obtain concurrence appraisals on management's estimate of current value to the entity. The continued usefulness of current value reporting for these entities will be enhanced by a continuation of this practice. However, questions arise as a result of the recent changes in the Appraisers' Uniform Standards of Professional Appraisal Practice ("USPAP"). Accordingly, the impact of the new USPAP standards on the appraisers' ability to continue to issue single page unrestricted opinions and express opinions on current value (as contrasted to market value) should be evaluated.

We would be pleased to consult with you if you have any questions or comments regarding our response to the proposed SOP. Please feel free to contact me at (714) 640-5000 or Mr. Marvin Goldman at (310) 277-0880.

Very truly yours,



ROGER A. JOHNSON
of Kenneth Leventhal & Company

ERNST & YOUNG LLP

787 Seventh Avenue
New York, New York 10019

Phone: 212 773 3000

January 11, 1995

Mr. Richard Stuart
Technical Manager
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Proposed Statement of Position, "Reporting by Real Estate Companies of Supplemental Current-Value Information"

Dear Mr. Stuart:

We support the overall objectives of the proposed Statement of Position (SOP), *Reporting by Real Estate Companies of Supplemental Current-Value Information*, and, therefore, recommend that it be issued. If companies voluntarily present supplemental current-value information to provide users of financial statements with additional information on which to base possible investment and lending decisions, we agree that the SOP would provide useful guidance. However, we believe the following suggestion relating to property held for sale should be incorporated in the final SOP.

Paragraph 18 of the proposed SOP provides that the current value of property that is expected to be sold should be the discounted amount of the sum of (1) the estimated net sales proceeds, and (2) the estimated net proceeds from operations to be received prior to the sale. In view of the FASB's nearly completed asset impairment standard that will require that real estate held for sale be stated at the lower of cost or fair value less cost to sell, we recommend that AcSEC reconsider whether the provisions in paragraph 18 of the proposed SOP should be revised to use the FASB's definition of value for assets held for sale. Using "fair value less cost to sell" as the measurement attribute would be consistent with paragraph 8 of the SOP that states, "current value to the entity of assets held for sale is similar to the accounting concept of fair value" (emphasis added).

We appreciate the opportunity to present our views on the SOP and would be pleased to discuss our letter with AcSEC or its staff at your convenience.

Very truly yours,

Ernst + Young LLP

(7)

OFFICERS
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JOSEPH L. CHARLES, CPA SECRETARY
LAURENCE KEISER, CPA TREASURER
ROBERT L. GRAY, CPA EXECUTIVE DIRECTOR

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January 11, 1995

Richard Stuart
Accounting Standards Division
AICPA
File 4210.CV
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position-Reporting by Real Estate Companies of Supplemental Current-Value Information

Dear Mr. Stuart:

We are enclosing the comments of the New York State Society of Certified Public Accountants in response to the above proposed statement of position. These comments were prepared by the Society's Real Estate Accounting Committee with the assistance of the Auditing Standards and Procedures Committee.

If you have any questions regarding the comments, please call us and we will arrange for someone from the committee contact you.

Thank you for your consideration.

Very truly yours,

Deborah Joy Levinson, CPA
Chairman, Real Estate
Accounting Committee

Walter M. Primoff, CPA
Director, Professional Programs

cc: Accounting & Auditing Committee Chairmen

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nysscpa

6, 7, 10, ~~21-23~~
41, Appendix A

COMMENTS

OF

Real Estate Accounting Committee of the New York State Society of Certified Public Accountants

On

Proposed Statement of Position-Reporting by Real Estate Companies of Supplemental Current-Value Information

•The proposed SOP (summary page) would require current value be based on the discounted amount of net cash flows expected to be realized by the reporting entity. However, the FASB (Announcement No. 94-4) is considering a proposed amendment to its exposure draft, *Accounting for the Impairment of Long-Lived Assets*, to change the lower of cost or net realizable value measure to the lower of cost or fair value less cost to sell. Accordingly, if these proposals are made effective, a real estate organization presenting supplemental current value information would likely value its impaired properties using different "current" and "fair" values in a single financial statement presentation.

•The proposed SOP (paragraph 6) states it applies to income producing properties, such as shopping centers, office buildings, hotels, and apartment buildings. For purposes of computing fair value, it may be inappropriate to consider hotels income producing properties similar to the other examples since hotels provide various guest services in addition to room rentals which are significant income producing operations. If this proposed SOP is intended to apply to hotels, it would be appropriate that the SOP provide special guidance for preparing supplemental current value information for hotels.

•While it appears the proposed SOP does not apply to common interest realty associations, it is suggested that the applicability of the SOP to such associations be specifically stated in paragraphs six or seven.

•Paragraph 21 of the proposed SOP is intended to give implementation guidance on the difference between the "current value to the entity of property held for operation" and the property's fair value. This guidance is somewhat vague and the final statement should contain several specific examples of the contemplated computations.

•The proposed SOP (paragraph 10) defines current value to the entity as management's estimate of the amounts at which assets will be realized through operations, given the entity's intent and ability. Given this definition, the proposed SOP (paragraphs 22 and 23) is unclear as to why summaries of several different methods used by appraisers in determining the values of properties are presented. It seems that the discounted cash flow method should be the suggested method, and that the direct capitalization method, comparable sales value method, current cost approach and gross income multiplier approach do not necessarily follow the definition of current value provided in paragraph 1.

•The discussion on captilization and discount rates (paragraph 22) should include the principal factors that influence the selection of these rates and available sources for this type of information.

•In computing the current value of a deferred income tax liability, the proposed SOP (paragraph 41) does not provide justification as to why a sale at the end of the fifteenth year subsequent to the balance sheet date should be assumed.

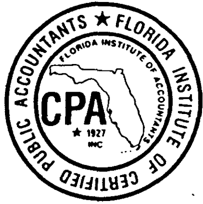
•The following comment relates to the illustrative footnote contained in Appendix A. In many cases, the discounted cash flow method used by appraisers and the discounted cash flow method discussed in valuation of properties held for operation are based on projections of cash flows for periods much longer than three to five years. The position taken in SOP 92-2 is that it would ordinarily be difficult to establish that a reasonably objective basis exists for a financial forecast extending beyond three to five years. Additionally, as mentioned in the draft, much of the current value information is based on estimates and assumptions.

Readers of this information may overlook the fact that it was developed by the use of estimates and varied assumptions. Although guidance is given on disclosure of certain assumptions underlying the computation of current values, the illustrative footnote does not contain wording indicating that these values are at best estimates of current values and may vary significantly depending on the underlying assumptions and estimates.

•While there is some guidance on reporting on such information in connection with audited financial statements, the AICPA should provide additional guidance for reporting on compilations and reviews. Guidance should also be provided on suggested procedures for auditors and accountants to apply when associated with such information.

•The proposed SOP does not address the valuation methodology and/or techniques to be used by an entity whose ability to continue as a going concern is in question. Additional guidance should be given for these entities, or in the alternative, they should be excluded from the scope of the SOP.

•Although not adopted as part of our official response, members of the Auditing Standards and Procedures Committee felt that any specialist such as an appraiser used to develop any of the supplementary information should be independent in relation to the client.



FLORIDA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

325 WEST COLLEGE AVENUE • P.O. BOX 5437 • TALLAHASSEE, FLORIDA 32314
TELEPHONE (904) 224-2727 • FAX (904) 222-8190

January 20, 1995

Mr. Richard Stuart
Technical Manager
Accounting Standards Division
File 4210.CV
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Stuart:

The accounting Principles and Auditing Standards Committee of the Florida Institute of Certified Public Accountants (the Committee) has reviewed and discussed the exposure draft of the proposed Statement of Position on Reporting by Real Estate Companies of Supplemental Current-Value Information. We respectfully submit our comments.

Overall the Committee was in agreement with the exposure draft as proposed. However, the Committee believes changes in assumptions made and methods used to determine current value to the entity are not sufficiently addressed in paragraphs 42 and 43. Accordingly, the Committee recommends consideration be given to requiring any significant changes in the assumptions made and methods used in determining amounts reported in the supplemental balance sheet be disclosed in the notes to the financial statements and quantified for purposes of revaluation equity.

Additionally, a minority of the Committee felt consideration should be given to not allowing supplemental current value information on the face of the entity's general purpose, historical-cost balance sheet. Rather, the minority position was that the supplemental current-value information should be required to be reported as a separate supplemental balance sheet.

The Committee appreciates the opportunity to comment on the exposure draft.

Sincerely,

Michael O'Rourke, CPA
Chairman (305) 667-3500

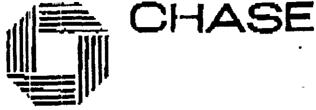
Members Coordinating response:

Jed S. Kapsos (407) 820-0800
Stephen H. Durland (407) 822-9995

(9)

The Chase Manhattan Corporation
2 Chase Manhattan Plaza
New York, New York 10081

Lester J. Stephens, Jr.
Senior Vice President
and Controller



January 10, 1995

Mr. Richard Stuart
Technical Manager
Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: File 4210.CV

Dear Mr. Stuart:

The Chase Manhattan Corporation ("Chase") welcomes the opportunity to respond to the American Institute of Certified Public Accountants' ("AICPA") proposed Statement of Position entitled, Reporting by Real Estate Companies of Supplemental Current-Value Information ("the Proposal").

The Proposal speaks to several different terms: the accounting definition of fair value, the appraisal definition of market value and the Proposal's definition of current value. We have reviewed the Proposal and have found the definitions of these different valuation terms and their use to be, at the very least, confusing.

Although Chase is not a real estate company and does not come within the scope of this Proposal, we do have real estate loans and owned real estate ("ORE"). Accordingly, we are concerned that any guidance that might be adopted could somehow be made applicable to our real estate assets. Specifically, this Proposal seems to conflict with existing GAAP, including Financial Accounting Standards Board Statement 107, "Disclosures about Fair Value of Financial Instruments" ("SFAS 107").

As discussed below, we now disclose the fair value of our real estate loans, and are concerned that we may potentially have to disclose real estate loans using the Proposal's concept of current value. Additionally, Chase records ORE, including in-substance foreclosures, at the lower of cost or estimated fair value, less estimated selling expenses. Furthermore, while SFAS 107 does not provide specific guidance for the disclosure of nonfinancial instruments, it does not prohibit an entity from disclosing the estimated fair value of these instruments.

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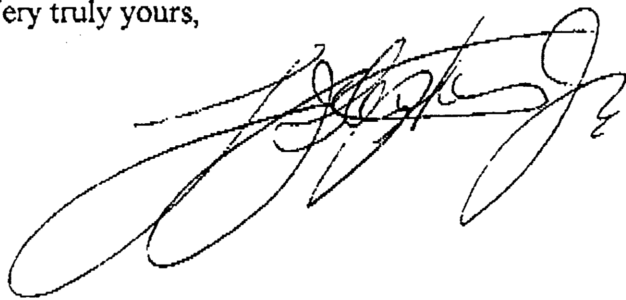
Specifically, paragraph 8 of the Proposal discusses assets held for sale. It states that "Current value is similar to the accounting concept of fair value." Paragraph 9 of the Proposal states, "Current values . . . are generally derived by applying discount or capitalization rates to expected cash flows expected to be realized by the entity." This narrow definition of current value is based only on the concept of discounted cash flows. On the other hand, fair value is much broader and considers, among other things, discounted cash flows. Current value fails to recognize the additional factors used by appraisers in determining fair value. To the extent an entity discloses fair value, which as previously stated is reliant on discounted cash flows, then fair value should not be significantly different than current value.

However, Chase does not believe that the differences between these two methods would be significant enough to warrant the disclosure of its real estate assets and liabilities under the current value method. Since fair value is already being disclosed, the additional disclosure of current value information does not provide any additional relevant and useful information to users of financial statements. Chase also does not believe that the additional burden of determining current value is justified.

Paragraph 16 discusses interests in real estate that are accounted for using the equity method. Banks may be involved in Acquisition, Development and Construction arrangements ("ADC") for which subsidiaries may be set up. These subsidiaries could possibly be deemed real estate companies under the Proposal. However, these subsidiaries do not function or operate as real estate companies. Equity investments are monitored and adjusted to reflect the equity interest in the earnings (losses) and gains (losses) on the disposition of these investments. Since the equity interest in these arrangements is less than 50%, is not consolidated and is actually just an accounting classification of a legal loan, the process burden, in the form of added expense and time spent, to current value them would not be offset by any additional benefit.

We appreciate this opportunity to express our views. If you have any questions, please do not hesitate to contact either me at (212) 552-8050 or David M. Morris at (212) 552-8207.

Very truly yours,



California
Society

Certified
Public
Accountants

January 19, 1995

Richard Stuart
Technical Manager, Accounting Standards Division
File 4210.CV
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Sirs,

The Accounting Principles and Auditing Standards Committee of the California Society of Certified Public Accountants ("AP& AS Committee") has discussed The Exposure Draft of the Proposed Statement of Position "Reporting by Real Estate Companies of Supplemental Current Value Information" and has developed certain comments on that exposure draft.

The AP & AS committee is a senior technical committee of the California Society of Certified Public Accountants. The Committee comprises 46 members, of which 17% are form national CPA firms, 52% are from local or regional firms, 20% are sole practitioner in public practice, 4% are in industry, and 7% are in academia.

The following comments represent the finding of the Committee's deliberations on the Exposure Draft.

The committee supports the issuance of the document, but has suggestions that we feel will improve it.

The Committee suggests that the statement in paragraph three of the Sample Footnote to the Supplemental Balance Sheet be included in the text of the statement, probably in paragraph 43, as required disclosure. That paragraph of the footnote reads, "The current value balance sheet is not intended to. . . . . taken as a whole."

The Committee prefers Method 2 of computing deferred income tax liability discussed in paragraph 40, but supports allowing either Method 1 or Method 2. The Committee suggests that the requirement of an assumed sale at the end of the 15th year be withdrawn from the computation of deferred tax as outlined in paragraph 41, bullet 4.

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The Committee suggests that the scope of the Proposed SOP be expanded to include companies that hold principally real estate and financial instruments, instead of only real estate assets.

Finally, the Committee suggests that the scope of the document be changed to allow supplementary current value disclosure only if it is in the format suggested in the Proposed SOP and includes all of the disclosures required here. This would preclude companies who wanted to avoid certain of the disclosures from applying the guidance in the proposed SOP on a piecemeal basis.

We will be happy to clarify any of the points we have made if you have questions about them.

Sincerely,

David C. Wilson, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants