

Matrix of ICSC Tenant/Landlord Lease Positions

Attachment A

<u>Type of Lease & Asset</u>		<u>Tenant Treatment</u>	<u>Landlord Treatment</u>
Lease of mall store		<ul style="list-style-type: none"> • Scope out of DP • Treat as service agreement 	<ul style="list-style-type: none"> • Consider following Revenue Recognition and Investment Property accounting
Balance sheet		<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • Capital asset for mall • No change because of lease
Income Statement		<ul style="list-style-type: none"> • Straight line expense 	<ul style="list-style-type: none"> • Straight line depreciation on mall • Interest expense on debt • Straight line revenue providing space & services
Standalone single tenant building / No Fixed Price Purchase Option			
		<ul style="list-style-type: none"> • Right to Use Model (see Tenant letter) 	<ul style="list-style-type: none"> • Consider following Revenue Recognition and Investment Property accounting
Balance sheet		<ul style="list-style-type: none"> • Capitalize Obligation to Pay Rent using <i>calculated</i> interest rate (see Tenant letter) • Capitalize Asset as offset to Obligation 	<ul style="list-style-type: none"> • Capital asset for standalone building • No change because of lease
Income Statement		<ul style="list-style-type: none"> • Amortize asset SL or increasing depreciation • Amortize obligation interest method or SL 	<ul style="list-style-type: none"> • Straight line revenue on providing space • Straight line depreciation • Interest expense on debt
	Interest rate	<ul style="list-style-type: none"> • <i>Calculate</i> using assumed residual value 	<ul style="list-style-type: none"> • N/A – use actual interest expense of debt
	Interest item	<ul style="list-style-type: none"> • <i>Amortizing</i> or straight line interest expense 	<ul style="list-style-type: none"> • N/A
	Depreciation expense	<ul style="list-style-type: none"> • Reverse amortizing or straight line 	<ul style="list-style-type: none"> • Straight line
Standalone single tenant building with Fixed Price Purchase Option (FPPO)			
		<ul style="list-style-type: none"> • Finance Model 	<ul style="list-style-type: none"> • Transfer Model (Existing Direct Finance Lease or Sales Type Lease) for all leases
	Balance Sheet	<ul style="list-style-type: none"> • Capital asset; evaluate purchase option for exercise separately 	<ul style="list-style-type: none"> • Lease payments receivable • Residual value equal to purchase option • Unearned finance income
	Income statement	<ul style="list-style-type: none"> • Depreciate capitalized asset • Amortize liability using interest method 	<ul style="list-style-type: none"> • Finance income amortization
	Interest rate	<ul style="list-style-type: none"> • Calculate using FPPO as final payment 	<ul style="list-style-type: none"> • Calculate using FPPO as final payment

ICSC Responses to Specific Questions

Question 25 – Do you think the lessor’s right to receive rentals under a lease meets the definition of an asset? Please explain your reasons.

Answer 25 – Yes, However in the context of an existing mall or investment property, the leases already represent a significant portion of the value of the property itself and thus if presented on the balance sheet may result in a double-counting of the same asset. Applying Investment Property accounting seems to consider this important fact.

Question 26 – Which of the two lessor lease accounting approaches do you support?

Answer 26 – We believe that store leases within malls should be treated as operating leases or service agreements by the landlords as under existing US GAAP found in FAS 13 or following the Revenue Recognition Discussion paper in the context of IAS 40. We believe the *Transfer Model* is appropriate only when the lease is of a standalone single tenant building with a Fixed Price Purchase Option.

Question 27 – Should the boards explore when it would be appropriate to recognize income at the inception of the lease? Please explain your reasons.

Answer 27 – Yes, however only when the lease clearly is a means of financing a sale. These types of circumstances are more related to equipment leases. Current real estate sales and revenue recognition accounting rules contain a discussion as to income recognition and should be incorporated into the lease accounting when such circumstances arise.

Question 28 – Should accounting for investment properties be included within the scope of any proposed new standard on lessor accounting?

Answer 28 – No, we believe investment properties should be scoped out of the Discussion Standard however considered under the Revenue Recognition Discussion Paper and in the context of the definitions of items included in IAS 40 – Investment Property.

Question 29 – Are there any lessor accounting issues not described in this discussion paper that the boards should consider?

Answer 29 – Landlords commonly use all forms of non-recourse debt to finance the acquisition of assets. We understand that leveraged lease accounting will not be considered as part of the lessor standards. Leveraged lease accounting incorporated a two-fold uniqueness to the lessor model in that it allowed for the netting of non-recourse debt against the gross lease receivable and also allowed for income to be earned on the net investment in leveraged lease balance, resulting in a front-end loading of income.

We believe that the non-recourse nature of much debt used to finance real estate investment property is an important consideration when viewing the primary financial statements of a landlord. Accordingly we believe that the FASB should consider some fashion of reporting the net

investment balances on the landlord's balance sheet, so that analysts can recognize that the landlord is not responsible for the non-recourse debt values.