Current Developments for the Real Estate Industry

Fourth Quarter 2015

pwc

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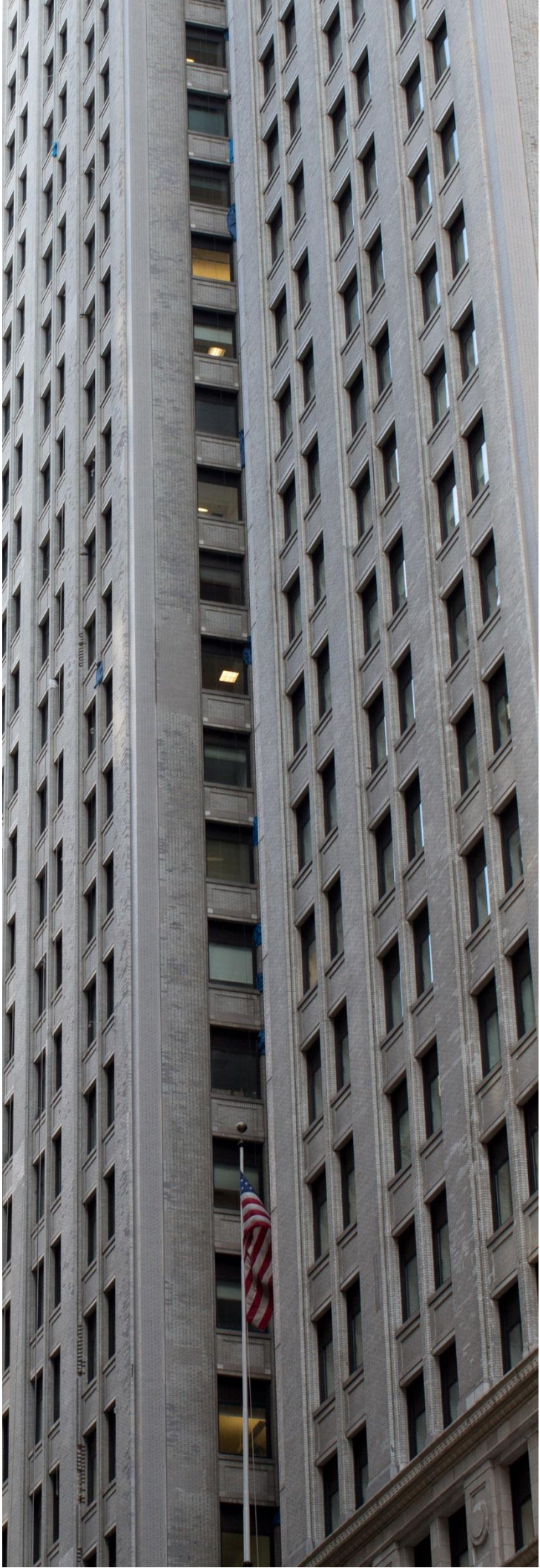

I. *Protecting Americans from tax hikes act of 2015*

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The *Protecting Americans from Tax Hikes Act* of 2015 (the "Act") was enacted on December 18, 2015. The legislative package approved this week covered a wide range of open matters, including extending or making permanent expired provisions. The law included a number of real estate investment trust ("REIT") and real estate related modifications. Many are expected to have significant benefits for the industry, but others will provide new restrictions and areas of focus for tax planning.

FIRPTA

One of the primary focuses of the real estate portion of the bill relates to changes to the Foreign Investment in Real Property (FIRPTA) provisions. FIRPTA can cause foreign investors to be subject to United States ("US") tax and withholding on sales of US real estate and generally would require the foreign investor to file a US federal income tax return. Much of the modification is very positive for the real estate industry as it exempts more holdings from the tax regime and this is expected to attract additional foreign investment to US real estate.

Under current law, a shareholder may hold up to 5% of publicly traded stock without incurring FIRPTA withholding and tax upon sale of the stock. The Act increases the percentage from 5% to 10%, broadening the possibility for greater foreign investment in US public REITs.

The Act also exempts foreign pension funds from FIRPTA tax and withholding. This new exemption applies to both to a foreign pension fund's disposition of the US real property interest and capital gain distributions from REITs. This exemption further applies in the case where a foreign pension fund indirectly holds a USRPI through a partnership interest. The FIRPTA tax has created an additional tax burden for foreign pension funds that they don't face on many other types of investment. Removing this tax barrier should incentivize foreign pension funds to invest in US real property interests. The law includes a detailed definition of what constitutes a foreign pension fund for this purpose. In general, a foreign pension fund is defined as an entity organized under the law of a country other than the US for the purpose of providing retirement benefits to employees and which receives favored tax treatment in its home country as to contributions or income. The definition is nuanced, however, and should be evaluated with respect to each potential foreign pension fund.

Further, the Act exempts from FIRPTA certain gains on sale of REIT stock and capital gain distributions from REITS when recognized by qualified shareholders. Qualified shareholders include entities traded on foreign stock exchanges and qualified collective investment vehicles. As with the new rules related to holdings by foreign pension funds, these provisions are complex and do not apply under all circumstances.

Under the current law, gain on shares in a Regulated Investment Company ("RIC") that holds predominantly US real property is subject to the FIRPTA tax regime when recognized by a non-US person. The law permanently extends the qualification of RICs to be qualified investment entities as defined for this purpose. This would exempt the gain on sale of RIC shares from the FIRPTA withholding and tax, again further incentivizing foreign investments in US real property.

The law does include certain revenue raisers related to FIRPTA tax and withholding. These provisions increase the rate of FIRPTA withholding on USRPI dispositions from 10% to 15%. It should be noted that this withholding would generally offset any tax due from the non-US shareholder upon filing of a US tax return.

Gain on the sale of domestically controlled REITs as defined is not subject to the FIRPTA tax regime. The new law includes a look-through rule for entities investing in REITs as to status as domestic shareholders. This may make it more difficult for certain private REITs to claim domestic status for FIRPTA purposes. On the positive side, a public REIT may now assume that shareholders who own less than 5% of its stock are US persons unless they have reason to know otherwise.

The FIRPTA provisions contained in the Act are generally effective for transactions occurring on or after the date of enactment. The increase in the withholding rate is effective for transactions occurring 60 days after the date of enactment.

Limitation on REIT spin-offs

The Act significantly restricts the ability of a corporation to do a tax-free spin-off of a subsidiary if either the parent or the subsidiary is a REIT while the other is not. The Act provides that REIT spinoffs only qualify as tax-free if immediately after the distribution both the distributing corporation and the controlled corporation are REITs. Furthermore, a distributing corporation or a controlled corporation is not able to elect REIT status until 10 years following a tax-free spin-off transaction when a C corporation distributes stock of a C corporation.

This provision applies to any transaction occurring after December 7, 2015 unless a ruling as to the consequences of the spin-off had been submitted to the Internal Revenue Service before that date.

REIT ownership in TRSs limited to 20%

Under current law, the total value of taxable REIT subsidiaries (TRSs) may not represent more than 25% of the value of the REIT's assets. The Act limits a REIT's ownership of the securities of one or more TRSs to no more than 20 % of the value of the REIT's assets.

While this provision is not effective until tax years beginning after 2017, entities electing REIT status that hold TRSs will need to more closely monitor compliance in order to not disqualify as a REIT under this provision.

Tax extenders for certain fixed assets

The Act permanently extends the provision for 15-year straight line cost recovery of certain assets. This provision applies to leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements. This is an extension of the 2004 Jobs Act that changed the law from 39-year cost recovery to 15-year cost recovery to more realistically reflect the actual life of certain improvements.

Built-in gains tax period

When a C corporation converts to REIT status or a REIT receives a tax-free contribution of assets from a C corporation, the REIT remains subject to corporate level tax on the sale of those assets for a period of time. The period for such gain recognition was originally ten years, but has been modified to five years annually for the past several years. The Act makes the five-year recognition period permanent.

Additional flexibility in the prohibited transaction safe harbor

A REIT is subject to tax at a rate of 100% on sales of property which it is deemed to have held for sale in the ordinary course of business. Such sales are referred to as prohibited transactions. Under current law, certain sales of real estate by a REIT will not be treated as prohibited transactions if, among other requirements, the REIT held the property for production of rental income for at least two years prior to the sale.

An additional requirement of the safe harbor addresses the total sales of the REIT for the year. Under current law, sales under the safe harbor are limited to seven per year or 10% of the adjusted bases or fair market value of the REIT's assets. The Act liberalizes the safe harbor by increasing the 10% to 20% and providing for a three-year averaging concept. While a REIT continues to have the opportunity to establish that a sale outside the safe harbor is not subject to the prohibited gains tax based on facts and circumstances, expansion of the safe harbor provides REITs with additional comfort in avoiding this onerous tax.

This provision is effective beginning with the 2016 tax year.

The repeal of the preferential dividends rule for publicly offered REITs

The Act repeals the preferential dividend rule for REITs that file reports with the Securities and Exchange Commission ("SEC"). A REIT is required to distribute at least 90% of its ordinary taxable income with adjustments to shareholders in order to maintain REIT status and claim the dividends paid deduction. Further most REITs distribute 100% of taxable income to eliminate its tax liability. A dividend cannot qualify for the dividends paid deduction if it is a preferential dividend. A preferential dividend occurs when members of the same class are paid dividends that differ in amount or timing or when classes are paid out of order of preference under the REIT's corporate charter. The Act repeals the preferential dividend rule for publicly offered REITs for tax years beginning after 2014. This would allow preferential dividends to qualify for the dividends paid deduction and avoids a REIT qualification issue over a matter that is often a small oversight or unintentional error.

The Act also allows the IRS to implement certain and appropriate remedies for preferential dividend distribution by non-publicly traded REITs. The remedies would be an alternative to simply treating the dividend as non-qualifying for the dividends paid deduction and for the REIT distribution requirement. Where preferential dividends were distributed due to reasonable cause and not due to willful neglect, the failure of the distribution test will not lead to REIT disqualification but will result in a lesser penalty.

Limitation on capital gains dividends designations

The Act provides for a limit to the amount of dividends designated as capital gains dividends or qualified dividends distributed to the amount of dividends actually paid in the taxable year. Dividends elected to be treated as paid in the prior year under the carryback (spillback) provision will be treated as paid in that year. This provision, taking effect in taxable years beginning after December 31, 2015, limits the flexibility that REITs have had in designating dividends as capital gain in years where capital gains exceed earnings and profits due to losses on operations or other sales.

REIT issued debt instruments treated as qualifying assets and qualifying 95% income

The Act provides that debt instruments issued by REITs that file with the SEC would qualify as real estate assets for purposes of the 75% asset test, but that no more than 25% of the value of a REIT's total assets can consist of these debt instruments. Further, income from such debt instruments will qualify for purposes of the 95% Income Test, but not the 75% income test for REIT income testing purposes. These changes partially address a perceived inequity that has allowed a REIT to own the stock of another REIT, but not its debt securities. This provision is effective beginning with the 2016 year.

Asset and income test updates for personal property and mortgage secured obligations

The Act provides conformity with the income tests with regard certain ancillary personal property that is leased in connection with the lease of real property and which does not exceed 15% of the fair market value of the property. Such ancillary personal property will now be treated as qualifying for the 75% asset test.

The Act also provides that an obligation secured by a both real and personal property will be considered a mortgage if the personal property component of the collateral does not exceed 15% of the total security value. This increases the comfort that a mortgage fully, rather than partially, is a real estate asset for REIT testing purposes and that its income is treated as qualifying for the 75% income test.

These provisions take effect beginning with tax years after 2015.

Certain income from hedging transactions will not constitute gross income

The Act liberalizes the hedging rules for REIT asset and income tests for years beginning with the 2016 year. The provisions clarify that income from a hedge entered into to effectively unwind a hedge previously entered into with respect to property indebtedness in the event the debt is extinguished or the property is sold is not gross income for purposes of the REIT income tests. REITs have sought this clarification as it may not be feasible to actual terminate the original hedge or that it may be cost prohibitive to do so.

In another positive development, the income test provisions will now consider the curative provisions with regard to hedges currently included in the Treasury regulations. The regulations with regard to hedge accounting provide that a taxpayer will be able to treat a contract as a hedge even if not so identified if the taxpayer has consistently treated the item as a hedge. The REIT provision with regard to the exclusion of hedge income from gross income for the REIT testing purposes did not provide reference to this mitigating regulation. This is another area where the Act eliminates a potential REIT qualification issue arising out of an unintentional error.

E&P is not affected by amounts not allowed in computing taxable income

The Act provides for changes in computation of current earnings and profits ("E&P") effective for tax years beginning after 2015. E&P would not be reduced by amounts not allowed in computing taxable income and which have not been allowed in any prior year. This provision addresses circumstances, for example, when a REIT shareholder was potentially impacted adversely twice for differences in depreciation methodologies as differences reverse over time.

TRS provided services expanded to foreclosure properties

The legislation allows TRSs to act in the same manner as independent contractors for foreclosure property purposes beginning in the 2016 tax year. The provision permits a TRS to operate foreclosure property without causing income to be non-qualifying for the REIT income tests and to market the foreclosure property on behalf of the REIT.

II. In the market and recent real estate trends

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Highlights of the 2015 AICPA National Conference on Current SEC and PCAOB Developments

The 2015 AICPA National Conference on Current SEC and PCAOB Developments was held on December 9, 10, and 11, 2015. The Conference featured representatives from regulatory and standard setting bodies, along with auditors, preparers, securities counsel, and industry experts. Presenters expressed views on a variety of accounting, auditing, and financial reporting topics. Each panel demonstrated support for the differentiated roles that combine to generate financial reporting that provides users with useful information. The title of SEC Chair Mary Jo White's speech seemed to capture this year's theme: Maintaining High-Quality, Reliable Financial Reporting: A Shared and Weighty Responsibility.

See PwC's In-depth for additional details on the 2015 AICPA National Conference on Current SEC and PCAOB Developments.

Investors monitor growing levels of new construction

Presently, new construction completions remain in check for most property sectors in the commercial real estate (CRE) industry with the possible exception of apartments, but as more announcements of new projects are made, the rise of construction activity, ground breakings and announced projects has some investors starting to feel a bit nervous. As one Survey participant comments, "Additions to supply have been pretty disciplined over the past years, but we are now seeing more cranes dot the horizons in various cities." Increased construction activity tends to happen nearly every time at this point in the CRE recovery – at the point when most property types and metros are moving into either the recovery or expansion phase of the real estate cycle. As a result, most surveyed investors are monitoring construction levels across property sectors, as well as geographies, in order to adjust investment strategies if necessary.

Refer to PwC's Summer 2015 Real Estate Insights for additional findings and investor opinions reflected in the 2015 2nd Quarter Real Estate Investor Survey.

Non- traditional REIT transactions

Generally, most property REITs today own "traditional" rental property, such as apartments, office buildings or malls. However, in an effort to unlock shareholder value, many companies that are heavy users of real estate are increasingly looking for methods to monetize their real estate in order to free up capital to be used in core operations and expansion plans. These methods traditionally have included non-recourse financing, sale-leaseback transactions and, more recently, REIT conversions.

REIT conversions may be "transactional" or "transformative" depending on the facts and circumstances of the particular company. The term "REIT conversion" is used broadly to describe a very wide range of transactions in which the end result is all or some portion of the original entity becomes a REIT, including a spin-off transaction. Today, many companies are evaluating the feasibility, benefits, costs and other issues associated with a potential conversion to REIT status or a REIT spin-off of their real estate. In some cases, these strategic evaluations have been initiated by the management of the companies themselves. In other situations, the decision was spurred by pressure from activist shareholder groups or investment bankers.

It is not yet clear whether this is a long trend. Arguably, the existing REIT structures have been available for a long time, yet now many of these industries are taking advantage of them. However, this is not a process one should undertake lightly. The conversion/spin-off process is highly complex from a tax, legal, regulatory, operational and financial reporting perspective. It can be a long, daunting task, fraught with potential pitfalls, and it may be extremely costly and difficult to reverse.

Depending on the circumstances, these transactions can take considerable time to execute – especially if it is considered necessary to obtain an IRS private letter ruling ("PLR"), re-engineer business processes, or if sales or divestures of aspects of the business are necessary. Additional complexity arises as the company must subsequently put in processes and controls to maintain its compliance with the sometimes-complicated REIT rules. These rules may also restrict a company's operating flexibility as well as drive governance changes that may themselves cause conflicts with the REIT rules. As a result, a REIT conversion/spin-off is not necessarily the best strategy for every company, even if it is legally possibly.

To learn more about recent trends in Non-traditional REIT transactions, please refer to PwC's Emerging Trends Update on Non-traditional REIT transactions.

Preparing for disruption in the real estate industry

Technological evolutions have resulted in new, emerging organizations changing the way consumers interact with certain services. We have seen this evolution in the transportation industry (i.e. ride sharing applications) and music industry (i.e. through various streaming services). Technological innovations are now spreading into the real estate industry through innovative new organizations that are challenging traditional business models. How can real estate organizations respond to this "market disruption" and remain competitive in a continuously changing environment?

By identifying potential disruptions, embracing change, and experimenting with new ideas, real estate organizations may be better prepared to stay ahead of both their competitors and broader shifts in the market. Please refer to PwC's Fall 2015 US Real Estate Insights for additional information on how companies in the real estate industry can prepare for disruptions.

"Live, work, stay, play" – Can the resident and tourist coexist?

City centers in the United States have evolved in scope over the past century as a result of changes in American society and commerce. As the center of activity until the 1940's when residential and office demand began shifting outside the urban core, this key submarket has begun to claw back demand as community leaders seek to re-concentrate market activity, positioning the city center as a more diversified destination for workers, residents and visitors. The repositioning of city centers may represent an opportunity for investors to identify opportunistic or value-add investments in cities throughout the United States. A recent trend in city planning includes an emerging practice in strategic development of the urban core as a "live, work, stay, play" model of land use. To learn more about trends in city planning and other recent trends in strategic development, please refer to PwC's Fall 2015 US Real Estate Insights.

Job growth and secondary cities are driving real estate opportunities

Following the economic downturn of 2007 to 2009, the real estate industry has recovered slowly but steadily. Many factors are contributing to this, among them the availability of capital, poised infrastructure development, job growth, and the lifestyle habits of the younger generations. The following blog highlight two lesser-known trends that promise to have an even bigger impact on the real estate industry.

To learn more about two lesser-known trends that promise to have an even bigger impact on the real estate industry, please refer to PwC's Asset Management blog.

Coordinating Offense and Defense in 2016

Every major college and NFL football team sees its game plan shaped by its offensive and defensive coordinators, working in concert with the head coach. The coordinators are expected to have both technical and strategic skills, the ability to work under pressure, and the capacity to adjust to rapidly changing conditions.

For the offense, the coordinator is charged with marshalling the team's resources to maximize opportunities and to translate them into points on the road to victory. For the defense, the coordinator is constantly assessing risks, both before and during the game, and countering them. In limiting the competition's advantages, the defensive coordinator seeks to put his team in the best position on the field by managing adversity and, as much as possible, turning an opponent's risk taking into an opportunity for his own squad.

For real estate, 2016 will see investors, developers, lenders, users, and service firms relying upon intense and sophisticated coordination of both their offensive and defensive game plans. In an ever more competitive environment, with well-capitalized players crowding the field, disciplined attention to strategy and to execution is critical to success.

A lending officer at a large financial institution said, "You can never forget about cycles, but the next 24 months look doggone good for real estate." At the same time, as one senior capital markets executive said, "The first 15 minutes of any committee discussion is on the potential risk in the deal." We've learned some lessons in the not-too-distant past.

To read more about real estate investors, developers, lenders, users, and service organization strategies and plans for execution in 2016, please refer to The PwC Emerging Trends in Real Estate 2016. Coordinating Offense and Defense in 2016 discusses the top real estate trends for 2016, emphasizing granularity, the weaving together of several strands of change, and the continuing capacity of the economy and the real estate markets to surprise by their flexibility, resilience, and innovation as both local and macro forces compel ever-greater open-mindedness about the future.

III. Governance discussion

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Director communications and shareholder activism

What's causing change in the boardroom? New technologies, activist investors, increased competition for talent, investor calls for direct dialogue, and changing risks related to strategic goals. How do boards stay oriented towards long-term shareholder value while balancing shareholder focus on short-term performance?

Directors recognize that balancing the pressure for short term results with a focus on long-term value creation requires the board to have good relationships with the company's largest shareholder. The majority of directors have become more comfortable with direct investor communications around corporate governance issues like executive compensation and board composition. Boards have also made significant strides in establishing protocols and practices to structure their communications with potential or current activists. And this progress can only serve to help them be in a better position to navigate an increasingly aggressive shareholder activism environment.

Please refer to the 2015 PwC Annual Corporate Directors Survey Governing for the long-term: Director and Shareholder Activism for additional information on how corporate directors are planning to govern for the long term.

Thinking strategically for the long-term

Directors continue to focus their attention on overseeing company strategy – but many say they are using longer time horizons than they did just a few years ago. To support this longer-term approach, they are frequently taking into account economic, geopolitical, and environmental macro trends, as well as emerging technological macro trends. All signs point to directors looking further down the road when it comes to strategy oversight. Directors have also become more confident in their ability to oversee risk and are taking more concrete actions to deter fraud and ensure appropriate "tone at the top."

Boards are responsible for providing strategic oversight in their efforts to enhance long-term shareholder value. A noteworthy development in this area is the use of a longer-term horizon for strategy reviews in recent years; 58% now say their company's strategic time horizon is five years or longer, compared to just 48% who said this in 2011. To learn more about other recent trends in governance, strategy, and risk, please refer to the 2015 PwC Annual Corporate Directors Survey Governing for the long-term: Strategy and Risk.

Key considerations for board and audit committee members; A fresh look at the boardroom agenda

Board agendas continue to evolve, and directors have to stay abreast of the many new issues facing companies. They have to stay focused on overseeing a company's strategy, risk management, ethics and compliance, as well as evaluating and compensating the CEO, among other items. It is crucial to take a fresh and critical look at the boardroom agenda to ensure it is meeting today's needs. Boards may want to consider the following topics and their impact on agendas – Shareholder activism, emerging technologies, risk oversight, cybersecurity, crisis management, financial reporting and revenue recognition, and noteworthy investor perspectives.

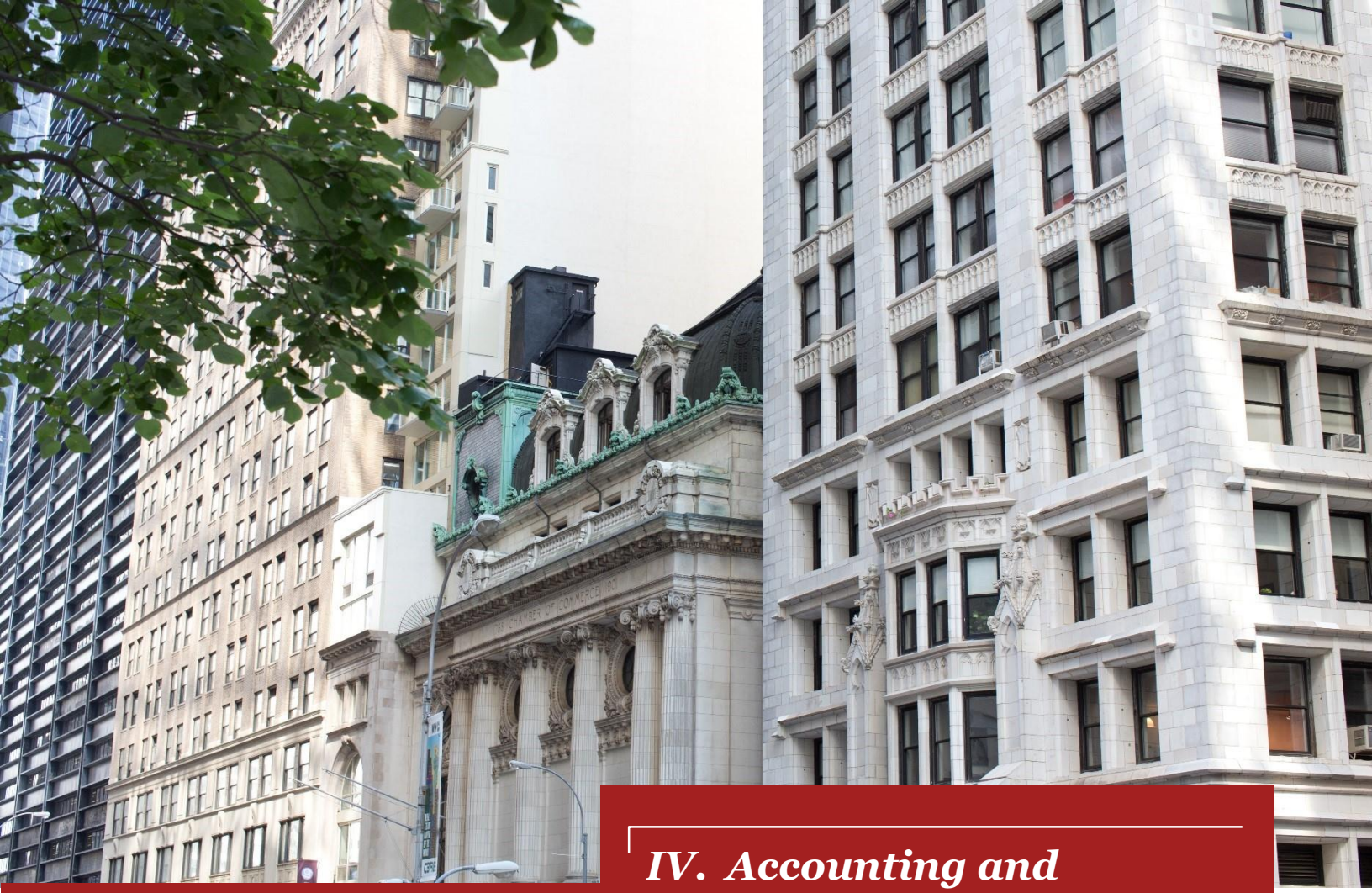
Please refer to PwC's Center for Board Governance Key considerations for board and audit committee members to learn more.

Cybermetrics; what a director needs to know

Overseeing a company's IT initiatives, particularly the adequacy of cybersecurity, can be a challenging task for directors. Cybermetrics—information and statistics about digital data and IT systems—the board receives are often narrowly focused on certain IT risks like personally identifiable information and the related systems that protect such information. But this should be only part of the discussion.

Management should consider addressing cybermetrics in a holistic manner that includes IT risks, strategy, and operations given the significant interrelationship of these areas. For example, the use of point-of-sale devices in operations, employees' use of mobile devices, or even new system implementations that lead to systems outages, can increase risks. So what cybermetrics should boards be receiving? A prescribed "one-size-fits-all" approach is unrealistic. But there is certain information that all directors should consider as a reference point.

Please refer to our latest edition of PwC's Audit Committee Excellence Series (ACES) which provides practical and actionable insights and perspectives to help audit committees maximize their performance in overseeing information technology at their companies. It also emphasizes the importance of a comprehensive approach and includes possible cybermetrics directors should consider.



IV. Accounting and financial reporting hot topics

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Year –end financial reporting considerations

While not intended to be an exhaustive list of all year-end reporting considerations, PwC has prepared a publication that revisits the 2015 financial reporting hot topics that continue to present challenges to financial statement preparers because of their complexity or unique nature.

The publication centers around five broad themes:

1. Strategic investments
2. Disposal transactions
3. Financing and capital transactions
4. Compensation accounting
5. Other accounting hot topics

Throughout the publication, included in the link below, PwC provides reference to other PwC publications where additional guidance can be found. Also provided are links to video perspectives where you can hear PwC professionals discuss some of these topics. Lastly, we have provided a link to a list of standards eligible for adoption in the 2015 reporting cycle. Please refer to the Year-end financial reporting considerations In-brief for additional reference.

Fair value disclosures: FASB proposes improvements

On December 3, 2015, the FASB proposed changes to the fair value disclosure requirements that are meant to improve their effectiveness. The proposed changes to the fair value guidance are the first test of the disclosure framework that the FASB proposed in March 2014. The FASB is also testing the proposed framework by considering the disclosures in other areas, including pensions, income taxes, inventory, and interim reporting. We understand the FASB expects to incorporate feedback received on the proposed changes to fair value disclosures in its re-deliberations on the proposed disclosure framework.

The proposed guidance related to the fair value disclosures was released with a separate document detailing how the FASB applied the disclosure framework to determine the proposed changes. The FASB is requesting input on both how the proposed disclosure framework was applied to the fair value disclosures, and on whether other changes should be made to fair value disclosures to improve disclosure effectiveness in this area. Please refer to the PwC In-brief publication for more information on the proposed changes.

The new revenue recognition standard; Assessing impact and implementation

Issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) ("Boards") in May 2014, the new principles-based revenue recognition standard ("new standard") replaces prescriptive, industry-specific guidance, improving comparability across industries and throughout global capital markets. Companies across various industries will use the new five step model to recognize revenue from customer contracts. Not only could this change the way companies recognize revenue, but depending on the nature of your business, it could also involve significant management judgment, require new estimates and disclosures, and potentially drive changes in business processes, policies, systems and internal controls.

Originally slated for January 2017, the effective date of the new standard was deferred this summer by a year, moving the adoption date for U.S. GAAP public companies to January 1, 2018 and non-public companies to January 1, 2019. While the extent of the impact will vary by company, it is clear that adoption is already presenting a rocky road. After seeking input on possible implementation issues last year, the Boards not only chose to defer the standard's effective date by a year, but there have also been ongoing discussions and changes to the standard in a number of areas.

Nevertheless, the Boards are hopeful to finalize changes to the new standard by year-end, and with the 2018 deadline looming, it is time for companies to take a hard look to determine what effect the new guidance will have on their organizations and what changes, if any, must be put into motion in order to apply the new guidance.

Companies can choose one of two adoption methods to transition their financial reporting to the new standard: 1) a full retrospective method requiring the standard to be applied to each period presented (e.g., 2016, 2017 and 2018) or 2) a modified retrospective method requiring the standard to be applied to existing and future contracts as of the effective date, with additional disclosure of financial statement line items that are different under the new standard versus what would have been recorded under legacy guidance each quarter. Regardless of the adoption method selected, some level of dual GAAP reporting will be required; therefore, companies will have to maintain two sets of accounting records and supporting processes for some period of time. To learn more about the new revenue recognition standard and potential impact on your business, please refer to PwC's Financial Executives Research Foundation - Revenue Recognition Survey Results.

FASB and IASB make updates to their leasing standards

The FASB and IASB each issued a revised Leases Exposure Draft in May 2013 that attracted significant comments from stakeholders, and which prompted to the Boards to reconsider key elements of the proposed standard. Although some aspects of the initial proposal have changed, and convergence between the FASB and IASB appears unlikely, the key objective, to bring most leases on balance sheet, has been met.

As re-deliberations draw to close, the FASB has retained a dual income statement model with classification of different types of leases similar to today. The IASB, on the other hand, has decided to require lessees to reflect all leases as financings. Over the past two years, there have also been other changes to the initial proposal related to classification, measurement and disclosure.

The FASB has determined the effective date for the new leasing standard. Despite a similar effective date, the FASB and IASB have voted for different provisions with respect to early adoption. On November 11, 2015, the FASB deliberated the effective date for the proposed new leasing standard. Expected to be issued early next year, the leasing standard will be effective for calendar year-end public companies beginning after December 15, 2018. Early adoption is permitted. The IASB previously voted for an effective date of January 1, 2019, but unlike the FASB, the IASB placed conditions on early adoption.

Please refer to PwC's In-brief (FASB), In-brief (IASB) and In-depth for additional information surrounding the proposed new leasing standards and effective dates for your company. Additionally, please follow the link, Lease modifications and assessing the lease term, to learn more about lease accounting, and implications of lease modifications and potential resulting impacts on the balance sheet and income statement.

FASB proposes a new definition of a business

On November 23, 2015, the FASB issued a proposal that would revise the definition of a business. The definition of a business directly and indirectly affects many areas of accounting (e.g., acquisitions, disposals, goodwill impairment, and consolidation).

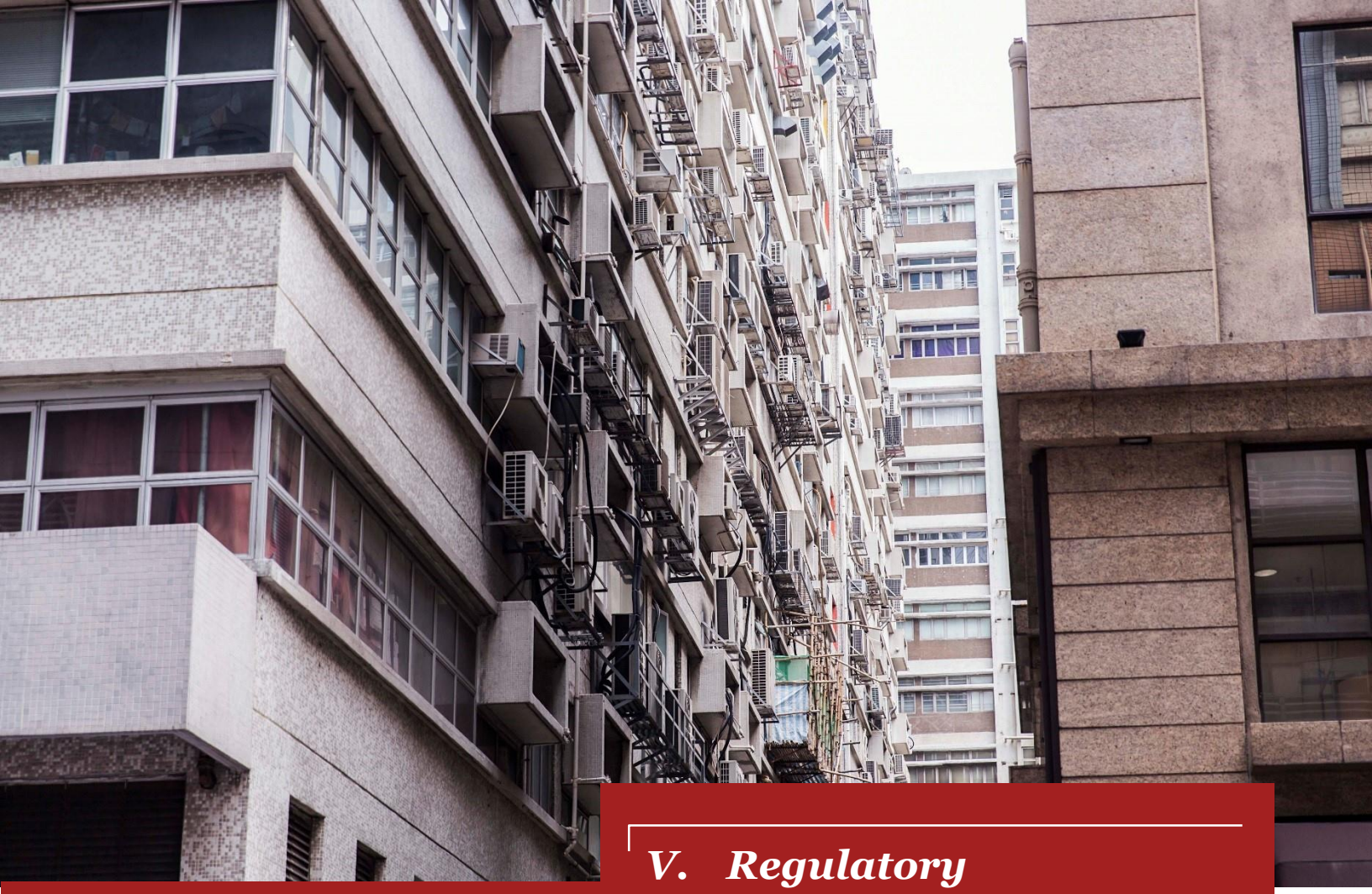
Under the current guidance, a business generally has three elements; inputs, processes, and outputs. While a business usually has outputs, outputs are not required to be present to qualify as a business. In addition, not all of the inputs and processes are required to qualify as a business, but only if market participants can replace the missing elements, for instance through integration with its existing operations. According to feedback received by the FASB, application of the current guidance is commonly thought to be too complex and results in too many transactions qualifying as business combinations.

To learn more about the FASB's new proposed definition of a business, please refer to PwC's In-brief.

Investments using NAV practical expedient removed from fair value hierarchy

ASC 820, *Fair Value Measurement*, requires reporting entities to categorize investments measured at fair value in one of the three levels in the fair value hierarchy. This categorization is based on the observability of the inputs used in valuing the investment. ASC 820 also allows the use of NAV as a practical expedient for fair value for certain investments, to the extent that NAV is calculated consistent with the guidance in ASC 946, *Financial Services-Investment Companies*. New FASB guidance allows reporting entities to exclude investments measured at net asset value (NAV) per share under the existing practical expedient in ASC 820 from the fair value hierarchy. In addition, when the NAV practical expedient is not applied to eligible investments, certain other disclosures are no longer required. The new guidance is effective in 2016 for calendar year-end public business entities and early adoption is permitted.

To learn more about Investments using NAV and updated FASB guidance surrounding practical expedient removal from the fair value hierarchy, please refer to PwC's In-depth.



V. Regulatory considerations

V. Regulatory considerations

Securities and Exchange Commission

SEC adopts rule requiring CEO pay ratio disclosure

The SEC's new pay ratio disclosure rule requires many public companies to disclose the ratio of their CEO's annual total compensation to the median annual total compensation of all employees. Starting in fiscal years beginning on or after January 1, 2017, the pay ratio disclosure is required in registration statements, proxy and information statements, and annual reports that require executive compensation disclosures. The new rule is not applicable to certain types of companies, including emerging growth companies and smaller reporting companies.

The pay ratio disclosure will include the CEO's annual total compensation, the "median employee's annual total compensation" as defined by the rule, and the ratio of these two amounts. The pay ratio disclosure may be expressed as a ratio (e.g., the CEO-to-median employee pay ratio is x:1), or as a multiple (e.g., the CEO's annual total compensation is x times the median employee's annual total compensation).

Further note, goalposts for the rule provided certain flexibility in how the ratio is computed. The determination of the median employee involves an analysis of full-time, part-time, seasonal, and temporary workers employed by a company. Once the median employee is identified, a company must then calculate the median employee's annual total compensation in accordance with existing SEC executive compensation disclosure rules.

The final rule provides for certain computational flexibility in the pay ratio disclosure, including the ability to:

1. exclude certain non-U.S. employees from the determination of the median employee;
2. make cost-of-living adjustments to the median employee's annual total compensation; and
3. use the same median employee for the three most recent fiscal years in certain circumstances.

See PwC's In-brief and Regulatory and standard setting developments, for additional details on SEC rules requiring CEO pay ratio disclosure.

2015 SEC comment letter trends for Financial Services

To help registrants gain insight into the SEC staff's current areas of interest, PwC analyzed comment letters issued to domestic registrants within the financial services industry. From this analysis, we identified "hot topic" areas, including industry-specific considerations and some other notable trends that we believe are relevant and may be of increasing focus in the near term.

The hot topics identified among comments issued to registrants in the financial services industry are somewhat consistent with those in other industries, with Management's Discussion and Analysis disclosures regarding the results of operations and liquidity and capital resources being the most prevalent. Focus areas over the past year also included loss contingencies, impairments, business combinations, and internal controls. Specific to financial services companies, and not surprisingly, the SEC staff focused on disclosures related to valuations. Enhanced disclosures around segment reporting was also identified as a theme in our analysis, as was the use of non-GAAP financial measures.

The analysis considered the breakdown of the financial services industry into four sectors: Banking and Capital Markets, Insurance, Asset Management, and Real Estate. All four of the sectors, when analyzed individually, presented substantially similar trends. The most common SEC comment letter trends include topics such as, leasing activities, same property comparisons, Non-GAAP metrics, and consolidation/equity methods.

For additional information about SEC comment letter trends in the financial services and real estate industry, please refer to PwC's Stay Informed; 2015 SEC comment letter trends in financial services.

PCAOB

PCAOB seeks comments on potential audit quality indicators

On July 1, 2015, the Public Company Accounting Oversight Board (PCAOB) issued a concept release on a group of twenty-eight potential audit quality indicators (AQIs).

The AQIs pertain to three broad categories:

- Audit Professionals - the availability of resources, competence, and focus of those performing the audit
- Audit Process - an audit firm's tone at the top and leadership, incentives, independence, attention to infrastructure, and its record of monitoring and remediating identified matters impacting audit quality
- Audit Results - measures relating to financial statements (such as the number and impact of restatements and other measures of financial reporting quality), internal control over financial reporting, going concern reporting, communications between auditors and audit committees, and enforcement and litigation

The PCAOB is considering whether AQIs would enhance the discussion around audit quality and contribute to the identification of key variables that drive audit quality. The PCAOB is also considering one or more approaches to communicating AQIs, ranging from voluntary disclosures to mandated public disclosure. Comments on the concept release are due September 29, 2015. A roundtable will be held during the fourth quarter of 2015. Please refer to PwC's In-brief or Regulatory and standard setting developments publication for more details.

PCAOB adopts final rules to disclose name of partner and others on new form

On December 15, 2015, the Public Company Accounting Oversight Board ("PCAOB") adopted new rules and amendments to its auditing standards requiring disclosure of the name of the engagement partner and information about other accounting firms that took part in the audit, including firms within the same network as the group auditor. This information will be filed with the PCAOB on a new PCAOB form, Auditor Reporting of Certain Audit Participants ("Form AP") and will be searchable on the PCAOB's website.

The rules and amendments to the auditing standards require disclosure for all audits of issuers, including employee stock purchase, savings, and similar plans that file annual reports on Form 11-K. At this time, the PCAOB is not extending the Form AP requirements to audits of brokers and dealers unless the broker or dealer is an issuer required to file audited financial statements. Additionally, the PCAOB is recommending the rules and amendments to its auditing standards apply to emerging growth companies, which will be subject to a separate determination by the Securities and Exchange Commission (the "SEC"), pursuant to the JOBS Act. For additional insight on the specific disclosure requirements and effective dates, please refer to the PwC In-brief.

VI. Technology trends and update

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Scammers that attack companies using wire fraud scam are finding surprisingly high rates of success

We've all gotten personal emails from people asking us to send them money overseas, and we easily identify them as junk mail. However, more and more employees are having a hard time identifying a similar scheme that requests wire transfers be sent overseas because the emails appear to come from people or vendors that they know. These scams target a company's payment functions, prompting the receiver to wire money to overseas bank accounts for apparently legitimate purposes. Since October 2013, U.S. businesses and international law enforcement have reported more than $1 billion in losses from these scams.

As cybercrime runs rampant, reports of major cyber incidents and data breaches that would have been unimaginable just a few years ago pour from today's headlines, affecting organizations in every industry. To learn more about cybersecurity concerns in the real estate sector please refer to PwC In the loop or watch PwC's spotlight on business email compromise shared within the recent PwC Quarter close.

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