COMMERCIAL REAL ESTATE SERVICES

CBRE

September 13, 2013

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

RE: PROPOSED ACCOUNTING STANDARDS UPDATE, LEASES
File Reference No. 2013-270

Dear Board Members:

CBRE Group, Inc. (CBRE-NYSE ticker symbol CBG) appreciates the opportunity to respond to the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB), collectively the "Boards", exposure draft - Proposed Accounting Standards Update, Leases.

CBRE, a Fortune 500 and S&P 500 company headquartered in Los Angeles, is the world's largest commercial real estate services and investment firm (in terms of 2012 revenue). We serve real estate owners, investors and occupiers through more than 300 offices (excluding affiliates) worldwide. Our business is focused on several competencies, including commercial property and corporate facilities management, occupier and property/agency leasing, property sales, real estate investment management, valuation, commercial mortgage origination and servicing, capital markets (equity and debt) solutions, development services and proprietary research. We consult on thousands of real estate leasing transactions each year and currently perform lease administration services for over 100,000 real estate leases.

Our business is primarily focused on commercial real estate. Accordingly, our comments primarily address the proposed changes to leases of real property (property).

We appreciate the efforts to date of the Boards to develop an approach to drive additional clarity and transparency to the users of financial statements as it pertains to lease accounting. However, we note that the proposed model requires complex judgments which will hinder the standardization, consistency and comparability of a preparer's financial statements. Thus, we disagree with the Boards' views that the proposed model offers a measurable improvement over the current model.

Specifically, we question whether a typical property lease meets the definition of a lease as it is defined in the revised proposal. Under the proposal, a contract must convey the right to control the use of an identified asset to be considered a lease. Per the definition, the right to control is determined by whether a customer has the ability to direct the use and receive the benefits from use of an identified asset.

In a typical property lease, the lessor, who possesses a "bundle of rights" inherent in real property ownership, generally conveys to the lessee only limited rights to use the leased premises for a specific purpose over a specified term. In return, the lessee incurs an obligation to compensate the lessor for the limited use of the asset over the term of the lease. The lessee's right to use the property is often so restricted by the lease contract that the lessee has little to no decision making rights over the leased property. Throughout the term of the lease, the lessor often maintains the right to make significant decisions related to the property, including the ability to direct and/or approve the property's use. We therefore do not believe that the typical property lease, where the lessor maintains the right to control the use of the property rather than convey it to the lessee, would meet the proposed definition of a lease.

The proposed model requires the lessee to gross up its balance sheet by recording an asset representing its right to use the leased property and an offsetting liability representing its obligation to make payments for the right to use the asset. We question whether a recognizable asset (a right-of-use (ROU) asset) is created for the lessee by the execution of a typical property lease since control of the resource is a required element in the definition of an asset in both U.S. GAAP and IFRS. As noted above, we believe that in a typical lease of property, control over the use of the property is often largely maintained by the lessor rather than conveyed to the lessee.

Without a recordable asset, it becomes problematic to record an offsetting financial liability for the obligation to make lease payments. In addition, lease commitments are not substantially different than other similar long-term contractual commitments, agreements and service contracts that are not recorded on the balance sheet. Thus, to be consistent, we do not believe that most property leases should be brought "on balance sheet" unless the lease agreement clearly resembles a financing.

We also disagree that the classification of a lease of property should be determined by a criterion which includes comparing the lease term to the remaining useful life of the underlying asset. A lease for the interim use of property (for example, a five-year lease of a floor of an office building) has no different economics whether that lease commences in the first five years of the building's economic life or in the last five years of its economic life.

Additionally, we believe that the volume and extent of proposed disclosures are excessive compared to those required for other classes of assets and liabilities. While the primary purpose of the proposed "on balance sheet" treatment is to generate enhanced transparency, we believe the level of proposed disclosure indicates this objective is not met. We also believe the majority of the proposed disclosure requirements are a result of the highly subjective nature of the ROU asset and liability calculations.

We do not believe that in its current form, the benefits of the proposed standard outweigh the costs of implementation and compliance on an ongoing basis. The exposure draft includes complexities and requires judgments that do not exist today, including:

- Measuring and re-measuring the assets and liabilities based upon whether the lessee has a significant economic incentive to exercise an option to renew the lease and for changes in the Consumer Price Index or similar indexes or rates
- Subjecting the ROU asset to impairment review
- Calculating book vs. tax differences

As a result of these and other complexities, significant time and resources will be incurred not only to implement the proposed standard but also to ensure compliance going forward. This will require involvement of not only Accounting/Financial Reporting personnel, but also will require more involvement from Real Estate, Contract Management, Legal, Treasury, Tax and Internal Audit departments. Information Technology will also have to be more deeply involved as systems are modified and maintained in order to capture required information and provide amounts for recording and disclosure. Sarbanes-Oxley Act (SOX) documentation and testing will expand due to the increased level of management judgment required, which will also result in higher external audit fees. As a result, we disagree with the Boards' views on costs and instead believe the ongoing costs of compliance with the exposure draft will be significantly higher than the costs to comply with current U.S. GAAP.

Furthermore, we do not believe the Boards have adequately considered that bringing leases "on balance sheet" could have negative implications on a company's existing credit agreements, bond indentures, etc. Lenders may seek financial consideration to cure violations of current debt covenants and higher leverage could result in incrementally higher borrowing costs.

In conclusion, we believe that the rights conveyed for the interim use of property in a typical lease of land and/or buildings should be reflected as a period operating expense for the lessee and period operating revenue for the lessor, consistent with current operating lease accounting. Lease agreements which clearly resemble a financing arrangement should be reflected on the balance sheet, consistent with the methods currently used for capital leases. We believe the leasing models currently used by lessees and lessors are more closely reflective of the actual economics contained in a lease. The existing U.S. GAAP accounting requirements for leases are far less subjective and complex and are well understood by both preparers and users of financial statements. We therefore endorse the continued use of these models for lease accounting and recommend that the Boards' efforts be redirected toward making targeted improvements to these models, including reasonable expanded disclosures.

We would like to thank the Boards for the opportunity to provide input on the proposed changes to lease accounting.

Sincerely,

Arlin E. Gaffner
Chief Accounting Officer