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Bridging IFRS and US GAAP in Cross Border Real Estate Investment

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Abstract

The article summarizes existing published literature regarding the interface between IFRS and generally accepted accounting principles (GAAP) in the context of cross border real estate investments. Does not calculate a new regression. It contrasts the rules and regulations applicable to investment property, owner occupied property, development inventory, leases, revenue generated from property sales, impairment, borrow costs and joint arrangements with studies of property businesses in Europe and the United Kingdom, the United States real estate investment trusts and foreign private issuers that raise capital under a shared securities regime. The fair value model for investment property is the one that is most consistently linked with the reduction of information asymmetry and the increased accuracy of forecasting the NAV, but the same model also includes unrealized appraisal gains on profit which harms the accuracy of forecasting profit. It is not guaranteed that that bridge is reliable, it is only guaranteed by the external appraisals. The practice in the United States is to value investment property at depreciated historical cost and to report the value primarily outside net income, via industry supplements like net asset value and funds from operations. Lease accounting has come together on recognition of a lessee asset/lessee liability, but it has not come together on lessee classification or on the pattern of expense. Revenue recognition has been moving towards the control principle, but there are still different profiles when considering collectability, transfers of development property over time and gain on sale and leaseback. Both practices have a stricter end in form because recoverable amount utilizes discounted cash flows and the practice of the United States forbids the reversal, whereas practice in form allows the recoverable amount to be based on discounted cash flows and permits the reversal. There is another gap, caused by joint ventures and mixed use classification. In this evidence, the bridge is complete for disclosure and for foreign private issuers subject to international standards with no reconciliation.

Keywords: Cross Border Real Estate, Investment Property, Fair Value, Leases, Earnings Comparability, Net Asset Value

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Introduction

Corporate reporting for cross border real estate is a claim on land, buildings, and contracts residing on the land, in two languages of accounting that have come closer without merging into a single language. The majority of property companies listed overseas report in IFRS. The accounting language used by domestic issuers is U.S. generally accepted accounting principles, the real estate investment trusts which account for the majority of the capital of property listed on exchanges in that market being the most prominent. Financial reporting involves the use of judgment, and transactions are structured with a degree of judgment to mislead investors or to affect contractual provisions that are sensitive to the numbers reported by the firm (Healy and Wahlen, 1999). This judgment is also found in accounts of property, frequently in a specific statement that it is allowed. A manager selects a fair value model or a cost model, determines if a tower is an investment property or inventory, and determines if a lease has transferred the control of the underlying asset. There is no mention of a fictitious entry on any of those acts. Each can remove reported profit during the time that the bricks and the rent roll remain constant. Schipper characterized earnings management as a conscious manoeuvre in the external reporting process to achieve a private benefit, and he stressed that he was looking for the manoeuvre both within and beyond the bounds of accepted standards. Jensen and Meckling provide the rationale for an outside investor not "performing a technical footnote" to the intervention (Schipper, 1989; Jensen and Meckling, 1976). As decision rights are separated from residual claims, there is a cost as the person who has the decision making rights is not fully responsible for the consequences of their decisions. For a cross border vehicle those estimates may be appraisal yields, lease classifications, and the legal interpretation of a payment right, and for the residual claimant, they may be far removed from the working papers, as well.

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Careful building a bridge between the two languages is worth it for only one reason: Agency cost. The essence of corporate governance, as Shleifer and Vishny see it, is the means through which finance suppliers insure themselves a return on the capital that they supply (Shleifer and Vishny, 1997). One of those mechanisms is accounting, which is the evidence that is used to calculate dividends, debt covenants, management rewards, and to sell a stake. If outside owner protection is lacking, the reporting model has to do more, because the court and the regulator will have to make up the appraisal they cannot see in the statements. La Porta et al. (2000) maintain that investor protection restricts the power of insiders to expropriate the outside owners, and hence facilitates deeper capital markets. The argument is directly fed into the property accounts. When an investor is not able to compare a tower reported by Frankfurt with a tower reported by Chicago, then the cost of capital is putting in a translation discount, unrelated to the vacancy or the yield. While standards were being introduced in most countries and into various industries, Ball warned that a single book of standards would not necessarily lead to uniform practice. Even if the paragraph numbers are the same, incentives and enforcement are local, and the training of the preparers is local. Real estate is a handy vehicle for doing this test, since the asset in question is physical, it is traded on markets that can be scrutinized by the uninitiated, and it remains in two accounting systems which send different numbers through profit.

There is no slogan for international evidence on reporting differences either about convergence or about abandoning convergence. Leuz et al. (2003) discover that the incidence of earnings management is higher in countries with lower investor protection standards and higher private benefits of control. This pattern doesn't make any one property company guilty, but it does create a precedent. In fact, the reported profit insiders with weak prospects of challenge have both the motive and room for moving through value. In the case of IFRS, Nobes demonstrates how some differences between countries persist in the documents, in explicit choices, and in the choices left to decision-makers. They report that, subsequent to the widespread adoption of those standards, accounting policy choices remained grouped by country of origin of the firm (Nobes, 2013; Kvaal and Nobes, 2010). The previous person for the property comes next. There can still be a straight-line operating expense in one market and operating only a single interest and depreciation based lessee model in another. Even if the common word for fair value is used, profit may be reported in one regime and in an unaudited supplement in the other. Subsequent research has sought to quantify the remaining differences to determine the impact of those differences on information asymmetries, forecast accuracy and investor utility of the profit. The present article has compiled those measurements and will not average them into a declaration of “no difference” between the languages, or of their becoming interchangeable.

Contractual reasons to sustain the life of a reporting option are as old as convergence projects themselves. Watts and Zimmerman explore past studies and the various reasons for accounting decisions that are triggered by bonus plans, political exposure, and the cost of breaching a covenant on accounting ratios (Watts and Zimmerman, 1990). A fair value model increases the profit when the market yield decreases and decreases the profit if the market yield increases, regardless of any changes in the rent roll. A cost model smoothes that path and helps safeguard reward schemes which were designed on depreciation based earnings. Debt contracts based on tangible net worth may choose to use the fair value number; debt contracts based on fund from operations may choose to remove the appraisal gain before the ratio is applied. Fama and Jensen (1983) make the claim that control of a decision must be removed from the management of the decision, and that this separation of responsibilities is best achieved in practice via outside monitors whose reputations lie in that separation. The external valuer is usually the monitor of the central estimate, not just the non-executive director, in a property company. Penman makes the further point that fair value is not necessarily an improvement in reporting quality (2007). The addition of the measurement to profit can introduce noise into the figure that users were already able to forecast where the estimate is a mark to model number and where the business model is the collection of rent rather than the trading of the building. The warnings should be in the introduction and prevent the subsequent evidence from being used as a contest with a set victor.

The actual regulatory process constructed is part rather than full, and the partialness is what necessitates the review. Hail et al. state the promise of convergence and the unfulfilled costs associated with it, such as the suggestion that the USA might converge with the IAS and why that might not happen (Hail et al., 2010). The bond issue by foreign issuers was narrower than a domestic bond issue. In 2007, the Securities and Exchange Commission accepted foreign private issuers' financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) without a reconciliation with United States practice (Securities and Exchange Commission, 2007). With the decision, the bridge became available to a European listed

property company that raises capital in the U.S. It did not need a United States real estate investment trust to do the same thing with the buildings that it owns and controls. While voluntary adoption of international standards is correlated with reduced earnings manipulation, increased timely loss recognition, and increased relationship of accounting numbers to share prices, it offers nothing to every later mandatory adopter (Barth et al., 2008). Lease and revenue projects brought recognition forward for the two languages. There was no change to investment property measurement. Which of these bridges, if any, is central to the narratives, and which is a common name for a different profit.

Literature Review

The measurement literature begins with the reliability of the appraisal itself, because no capital market consequence can be stronger than the estimate on which it rests. Dietrich et al. examine investment property fair values reported by United Kingdom firms and compare those estimates with subsequent sale prices (Dietrich et al., 2001). The estimates are reliable on average, in the sense that they are not wildly distant from the prices later realised, but managers appear to select which properties are sold, and reliability improves when an external appraiser rather than an internal one prepares the number. That finding is easy to understate. A standard that requires fair value does not, by its own force, appoint an independent valuer or stop a sponsor from choosing the disposal that flatters the remaining book. Muller and Riedl take the monitoring question to the equity market (Muller and Riedl, 2002). Market makers set narrower bid ask spreads when United Kingdom property firms employ external appraisers than when they employ internal appraisers, after the authors attend to the fact that the choice of monitor is not random. They do not find a comparable spread difference for the identity of the auditor. Landsman reviews the wider capital market evidence on fair value and concludes that relevance is often present while reliability varies sharply with the level of the measurement hierarchy and with the strength of the institutional setting (Landsman, 2007). For a cross border investor the practical lesson is already visible. A fair value balance sheet is not one object. It is an estimate plus a monitor, and the monitor is part of the bridge.

Mandatory provision of investment property fair values changed the information environment, and it did so with a limit that later celebration often drops. Muller et al. study European real estate firms around the compulsory application of the investment property standard (Muller et al., 2011). Firms that were newly required to provide fair values show a larger decline in bid ask spreads than firms that had already been providing them on a voluntary basis. The mandate therefore did something. It did not, however, bring the newly compelled firms level with the firms that had chosen transparency earlier. Mandatory adopters remain at a higher level of information asymmetry, and the authors trace part of that residual gap to lower reliability in the fair values those firms report. The common standard narrowed a difference that incentives had already opened. It did not close the difference. Daske et al. reach a related conclusion on mandatory adoption more generally (Daske et al., 2008). Capital market benefits around the reporting change concentrate among firms whose reporting incentives are serious, rather than appearing as a uniform gift of the new book. Christensen et al. press the point further (Christensen et al., 2013). Many of the liquidity effects observed around adoption in Europe cluster in countries that changed enforcement at the same time, which means a researcher who credits the standard alone will misattribute a legal event. Property fair value sits inside that larger caution. A paragraph that requires a number will not discipline a market in which appraisal practice and enforcement stay weak.

The reporting model also changes what an analyst can forecast, and it does not change every forecast in the same direction. Liang and Riedl contrast United Kingdom investment property firms, which report the principal operating asset at fair value, with United States investment property firms, which report that asset at historical cost (Liang and Riedl, 2014). Forecasts of net asset value are more accurate for the United Kingdom firms, which is consistent with the fair value model revealing private information that enters the balance sheet forecast. The advantage shrinks in recession, when fair values fall toward depreciated cost and the two models are more likely to say similar things. Forecasts of earnings are less accurate for the United Kingdom firms once unrealised gains and losses pass through profit, because those gains are not a smooth function of last period rent. Danbolt and Rees use British real estate and investment fund vehicles as a setting in which fair value income can be compared with historical cost income (Danbolt and Rees, 2008). Fair value income is more value relevant than historical cost income when it is considered alone. Once changes in fair value balance sheet amounts are in the specification, income measures become largely irrelevant. They also find that fair value in the real estate sample is less value relevant than fair value in the investment fund sample, and that the real estate evidence is consistent with earnings management even if it is not conclusive. Israeli separates recognition from disclosure and finds that recognised fair values of investment property associate more strongly with

equity prices than disclosed fair values (Israeli, 2015). Placement is not a cosmetic choice. Investors do not fully undo it.

The election of the model is itself a choice, and a coefficient that ignores the choice will flatter whichever model the chosen firms prefer. Quagli and Avallone study the drivers of the choice between fair value and cost for investment property (Quagli and Avallone, 2010). Size, leverage, and the information environment help explain which firms elect the measurement model. A leveraged property group and a widely held group are not randomly assigned to the same accounting policy, so a later association between fair value and a market outcome cannot be read as the pure effect of the standard. Christensen and Nikolaev supply the boundary condition that stops investment property from being treated as a license to measure every building (Christensen and Nikolaev, 2013). When firms are free to elect fair value for property, plant, and equipment used in operations, they rarely do so. The authors read that rarity as a market test. Historical cost survives for operating assets because users and preparers do not find the revaluation useful enough to pay for it. Investment property is the exception that marks the boundary. The asset is held for rent or for capital appreciation, its cash flows can be separated from an operating business, and appraisal practice already existed in the industry. Nellessen and Zuelch show the limit even inside that exception (Nellessen and Zuelch, 2011). Net asset value built from investment property fair values commonly departs from the market capitalization of European property companies, and the authors attribute the departure to the limits of appraisals, to the diversity of valuation approaches, and to the reliability problem of mark to model techniques. A bridge that quotes net asset value as if it were a traded price overstates what the appraisal can do.

Broader adoption studies set the boundary for what a property paper can honestly claim. Brochet et al. examine mandatory adoption and financial statement comparability, using the profitability of insider purchases as a window on private information (Brochet et al., 2013). Abnormal returns to insider purchases decline after adoption in a manner consistent with improved comparability and with a reduced ability of insiders to trade on private knowledge of the accounts. DeFond et al. link comparability gains to the holdings of foreign mutual funds, which increase where adoption makes statements easier to compare across borders. Cascino and Gassen show that those comparability effects do not arrive evenly (DeFond et al., 2011; Cascino and Gassen, 2015). Compliance and the preexisting distance between national practice and the new standards condition the result, so a country that adopts the cover page without adopting the judgments will not obtain the capital market effect. Ahmed et al. report a further caution from a broad mandatory sample (Ahmed et al., 2013). Accounting quality, measured by smoothing and by the timeliness of loss recognition, does not uniformly improve, and on some indicators it deteriorates. The implication for real estate is narrow and it should stay narrow. A fair value mandate can reduce spreads for property firms, as the European evidence indicates, and can still leave the profit of those firms incomparable with the profit of a real estate investment trust that depreciates the same economic asset and reports value outside the income statement. Comparability is a result to be shown for a particular line in the accounts. It is not a slogan earned by a shared conceptual framework.

Problem Statement

The early evidence that followed the first compulsory provision of investment property fair values was encouraging and incomplete at the same time. Firms newly required to place an appraisal in the reporting package showed a narrower gap between informed and uninformed trading, yet they did not catch the firms that had already chosen to publish those amounts, and the gap that remained lined up with weaker reliability rather than with a finished reform. A reader who stops at the improvement will overstate the bridge. A shared requirement to report a value is not the same thing as a shared quality of valuation, and it is not the same thing as a profit figure that means the same thing on both sides of the border. Later evidence does not line up in a single direction, and that disagreement is the problem this article is written to hold still. One line of work finds that fair value improves the accuracy of balance sheet forecasts and at the same time reduces the accuracy of earnings forecasts. Another finds that a recognised fair value is priced more strongly than the same information merely disclosed beside the statements. Another finds that the election of the fair value model is itself a systematic choice, so the firms that report the number are not a random draw from the industry. Another finds that fair value is rarely chosen for property occupied in operations, which means a result about rented towers cannot be exported to every floor of a mixed use building. Appraisal studies add a further split, because reliability against later sale prices is better, and equity market spreads are narrower, when the valuer is external rather than internal. Lease and revenue research is younger and reports a different pattern again. Recognition of lessee rights has moved together across the two languages, while the pattern of expense, the classification used by landlords, and the gain on a sale and leaseback have

not. Revenue standards share a principle of control and still Part Company on collectability and on whether a development transfers as work proceeds. Impairment standards part company on discounting and on the permission to reverse a previous loss. Until these disagreements are set beside one another, sponsors, lenders, and regulators cannot tell which parts of the bridge are supported by the evidence and which parts are assumptions carried over from a speech about convergence.

Objectives

1. To ground cross-border real estate reporting in agency theory, positive accounting theory, and measurement literature.
2. To compare rules and findings on investment property, owner-occupied property, and development inventory.
3. To compare rules on leases, revenue, sale-and-leaseback, impairment, and joint arrangements, marking real changes vs. vocabulary shifts.

Research Questions

1. Are investment property rules (fair value, cost, disclosure) linked to different information asymmetry and forecast accuracy?
2. Did lease and revenue convergence reduce cross-border real estate differences, and which remain?
3. Do impairment, borrowing cost, and joint arrangement rules widen or narrow the gap, and is reported profit opportunistically placed?

Methodology

The method of the article is a structured evidence review of archival studies on real estate reporting under the two languages, supported by the standards required to interpret those studies. It is not an original regression, and it does not create a fresh sample of firms, a new coding of appraisal reports, or a measure of discretionary accruals estimated for this paper. Studies were retained when they examined investment property firms, real estate investment trusts, or adoption settings in which the fair value of property was the accounting treatment of interest, and when they related that treatment to information asymmetry, to the accuracy of forecasts, to the association of accounting amounts with share prices, or to reliability judged against a later transaction price. Standards were retained when they govern the classification or the measurement of real estate, the accounting for leases by tenants and by landlords, the recognition of revenue from contracts to sell property, the impairment of amounts carried at cost, the capitalisation of borrowing costs into qualifying developments, or the reporting of joint arrangements. The review privileges results that the published papers actually state and rules that the standards actually contain. It does not invent coefficients that those reports do not contain, and it does not turn a qualitative finding into a false decimal. Where a study reports a direction and a design, this article reports that direction and that design. Where a study is silent, the article stays silent rather than filling the silence with a plausible story.

The designs that carry interpretive weight fall into a small number of families, and the article keeps those families distinct instead of melting them into a single narrative of success or failure. One family reads information asymmetry from equity trading spreads and asks whether the provision of property fair values, or the identity of the person who prepares the appraisal, narrows those spreads. A second family reads forecast accuracy from errors in net asset value and from errors in earnings, and it refuses to treat those two errors as one fact with one sign. A third family reads the usefulness of the number from its association with share prices, and it separates amounts that are recognised in the statements from amounts that are only disclosed beside them. A fourth family reads reliability by setting appraisals against prices later obtained when a property is sold, and it attends to the possibility that the properties chosen for sale are not a random slice of the portfolio that remains. A fifth family is not statistical. It is the direct comparison of authoritative rules on classification, on leases, on revenue, on impairment, on borrowing costs, and on joint control. A result that appears in only one family is reported as a result of that family. A claim that would require the families to agree, in a case where they point in different directions, is not upgraded so that the article will read more smoothly. More weight is given to designs that face the problem of self-selection, and the article says so when a study could not remove that threat.

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Endogeneity is the central threat to every fair value result in this literature, and the method treats that threat as a real limit on what may be claimed rather than as a ritual sentence. Firms that already wish to appear transparent are more likely to appoint an external appraiser and more likely to publish fair values before any mandate forces the issue. A negative association with trading spreads will then flatter the standard, because the standard is standing in for a commitment the firm had already made. Studies that use early voluntary reporters as a contrast, and that still find a gap remaining after the mandate, are more persuasive than studies that compare compelled firms with a control group that was never in the same disclosure market. Studies that model the choice of the fair value election are more persuasive than studies that treat the election as if a regulator had assigned it inside one country. A contrast between a jurisdiction that requires fair value reporting for investment property and a jurisdiction that requires historical cost is closer to an assigned regime than a within country choice is, but it is still not an experiment. The mix of properties, the level of leverage, the tax system, and the structure of the listed sector can differ across the border for reasons the reporting model did not cause. This article reports the design a study used. It does not promote a correlation of spreads into a claim that fair value lowers the cost of capital in every city, and it does not promote a forecast result into a claim about lenders the study never observed.

A particular caution attaches to the word convergence, and the method does not use that word as a synonym for success. A standard can change the formal entry in the journal and still leave the adjustment made by a careful investor unchanged. Placing an operating lease on the balance sheet tells something new to a reader who had ignored the commitment, and it tells much less to a reader who had already capitalised the same commitment by hand before the reform. Changing the pattern of expense, from an even charge over the lease term to a charge that is heavier in the early years because interest and depreciation are recorded separately, changes profit even for the reader who already knew the size of the liability. Those are different events. A method that dates them as one reform will overstate how far the bridge has been built. The same caution applies to revenue from property sales. A shared principle that profit follows the transfer of control can still produce a different development profit if one legal system makes the right to payment enforceable in a meaningful way and another legal system does not. The tables that accompany the later sections are comparative tools. They are not estimated outputs of a model fitted for this article. One table sets classification and measurement side by side. A second table sets out the lease and revenue differences that remained after the projects. A third table places the main archival patterns next to standard contrasts that those archival papers were not written to test.

The interpretive rules used in the later sections follow from that method and are stated here so that a reader can see what was refused as well as what was retained. A finding stays tied to the design that produced it, and it is not treated as a census of the global property market. A narrowing of trading spreads around a European reporting change is not reported as a fall in the cost of capital of United States trusts. An improvement in forecasts of net asset value is not reported as an improvement in forecasts of earnings. A rule that is present in one language and absent in the other is reported as a difference even when no regression has tested it, because the absence of a regression is not the absence of an entry in the accounts. Stories in which a governance device is said to improve financial performance through the channel of reporting quality are not imported from other fields unless the property evidence itself contains each step of that story. The article also refuses two ornamental conclusions that the method cannot support. It does not say that the standards are unimportant merely because options and classifications survive inside them. It does not say that a labelled fair value, a labelled committee, or a labelled lease on the balance sheet is enough to make earnings honest. The prose that follows is a map of what has been found and of what the standards still require a preparer to do. It is not a new estimate, and it should not be cited by a later user as if it were one.

Classification and the Fair Value Bridge

The first research question is answered by setting the asset classes side by side rather than by averaging them into a false consensus. International Accounting Standards Board requires a firm that holds property to earn rent or for capital appreciation to classify that property as investment property and to elect either a cost model or a fair value model for the class (International Accounting Standards Board, 2003). Under the fair value model there is no depreciation, and gains and losses from remeasuring the asset enter profit or loss in the period of the change. Under the cost model the firm depreciates the asset, and it must still disclose fair value, so the number is not a secret even when it is kept out of the income statement. Financial Accounting Standards Board practice, in the topic that governs property, plant, and equipment, requires the cost path for recognition and does not provide an investment property category that would place the same unrealized movement in profit. Liang and Riedl exploit that difference in assignment between the United

Kingdom and the United States (Financial Accounting Standards Board, 2009; Liang and Riedl, 2014). The fair value number informs the forecast of net asset value. The historical cost number does not, until an investor rebuilds a value from supplements that the standard itself does not call profit. A reader who treats a recognised appraisal gain in one market as a simple contradiction of depreciation in the other market is moving too fast. The buildings can stand on neighbouring streets. The standards that carry them do not. The comparison that follows keeps rented property, owner occupied property, inventory, and rights of use in separate rows so that later prose cannot slide from one class to another without being noticed.

Table 1. Classification and Measurement of Real Estate under the Two Languages

Asset use	IFRS treatment	US GAAP treatment	Effect on profit
Held to earn rent or for capital gain	Investment property. Cost or fair value. No depreciation if fair value is elected.	Property, plant, and equipment at cost less depreciation. No investment property category.	Unrealised gains enter profit only under the fair value model.
Occupied by the owner	Cost, or a revaluation kept outside profit.	Cost less depreciation. Revaluation is not permitted.	A revaluation surplus is not profit. Ordinary depreciation remains in the United States.
Held for sale in the ordinary course	Inventory at cost. Fair value is not the measurement model.	Inventory at cost.	The development margin waits for revenue. Capitalised borrowing cost can still differ.
Held under a plan to sell	Lower of carrying amount and fair value less costs. A later reversal is possible.	Lower of carrying amount and fair value less cost to sell.	Classification can force a loss under both. Recovery is more likely to return under IFRS.
Right of use held by a tenant	One lessee model. Depreciation and interest.	Operating or finance classification. Operating cost is usually even across the term.	Balance sheet recognition is shared. The pattern of expense is not.

Appraisal monitoring tells a sharper story than the election of the model, and it is the story that decides how much of the fair value bridge a prudent user should be willing to cross. Dietrich et al. find that fair values reported by United Kingdom property firms are reliable against later sale prices on average, and that reliability is higher when an external appraiser prepares the estimate rather than a valuer inside the firm (Dietrich et al., 2001). They also find that the decision to sell is not innocent of the accounting consequence, which means a subsequent price, however clean, is not a pure audit of every asset that remains in the portfolio. Muller and Riedl take the same distinction into the equity market and find lower information asymmetry when the appraiser is external (Muller and Riedl, 2002). They do not find that the identity of the auditor plays an equivalent role for this particular estimate. The monitor who matters is the valuer whose judgment sets the yield, not merely the firm that signs the opinion on the financial statements as a whole. Nellessen and Zuelch show the market level cost of weak reliability (Nellessen and Zuelch, 2011). Net asset values built from investment property fair values regularly depart from the equity market capitalisation of European property companies, and the authors tie that departure to the limits of appraisal, to inconsistent methods across firms, and to measurement by model rather than by a quoted price. International Accounting Standards Board ranks a quoted price in an active market above a model, so an appraisal of a thinly traded tower is not the same kind of input as a price taken from a deep market, even when both amounts are described as fair value (International Accounting Standards Board, 2011a).

Any straightforward positive comment about the model warrants the recognition of the number, and not just its disclosure. The firms that have not previously disclosed the number of investment properties on their own have experienced an even greater reduction in trading spreads when investment property fair values were included in the disclosures, and these firms did not have the same degree of asymmetry as the firms that were voluntarily disclosing the number of investment properties (Muller et al, 2011). A standard may require a line but the quality of the line would still be at the discretion of local valuation practice and the incentive of the preparer. Equity prices are more aligned with a recognised investment property fair value of investment property than with the fair value disclosure only (Israeli, 2015) so a supplemental table in a United States filing is not a full replacement for recognition if the method used for the fair value of the investment property appears on the U.S. filing page. Investors collectively don't conduct the entire translation. Quagli and Avallone (2010), point to the selection problem. Those firms that choose to use the fair value model are not a random sample of companies, but are systematically different from those that do not use the fair value model in their leverage ratios and in how much information exists about them. The studies together indicate a

conditional answer to the first research question. The most important characteristic of recognised fair value is that it is the best indicator of lower asymmetry and more useful to predict the NAV. That coincidence is less strong when the appraisal is internal, when the firm is forced to, not required to, do the appraisal, and when the user is estimating earnings, not net assets.

The income statement becomes a better balance sheet when it is a better profit. For related reasons, Liang and Riedl (2014) show that the accuracy of earnings forecasts is reduced when the gains on unrealised properties pass through the profit, since these gains are not as easily predicted as the serial pattern of rental income in the book of leases that analysts have. The same study concludes the benefits of fair value over net asset value forecasts are less pronounced in recession, a period in which the values approach depreciated cost and are temporarily saying the same thing for economic reasons, not because of reconciliation in the standards. Danbolt and Rees make a comparison between fair value income and historical cost income in the British real estate sector as well as in investment funds (Danbolt and Rees, 2008). Fair value income is more relevant until the change in the fair value of the balance sheet is added to the test, but thereafter the income component has little incremental relevance to value. They also find the real estate application less convincing than the fund application in which the marks are closer to the trade prices and they explain the real estate pattern as consistent with earnings management, but they don't characterize that evidence as conclusive. Penman is the provider of the frame (Penman, 2007). A remeasurement inside profit is not on its own an improvement in the quality of the earnings if a going concern investor is not likely to be able to predict cash flows derived from the remeasured item. The fair conclusion is the narrower of the two slogans for language. Lower asymmetry are recognised and externally appraised balance sheet amounts. It's not part of the claim that earnings per share have become "cleaner.

While it may be tempting to consider a mixed use tower to be one economic property, owner occupied property and development inventory shouldn't be placed in the same sentence. When the firm does have a choice, elections of fair value for property, plant and equipment used in the operation are rare, as documented by Christensen and Nikolaev (2013). Any assertion that a revaluation option on the floors the owner resides on is the "live bridge" between the languages is contradicted by that rarity. Although international standards allow a revaluation through equity which is not available in the United States practice, the working model for these floors remains historical cost (less depreciation). Laux and Leuz warn readers that fair value is not the panacea to solve all reporting issues, nor is it a reporting technique that should be forbidden anywhere where judgment is involved (Laux and Leuz, 2009). The boundary that they suggest can be seen in the building. Development inventory remains at cost with both languages until control is transferred to a buyer; the margin comes through revenue as opposed to the investment property model. The caution that needs to be taken at this boundary is the right one (Ball, 2006). In a common set of standards, options and classifications perpetuate national and contractual practices. One structure and three measurements can be used for a podium for hire, a HQ floor, and a pile of flats for sale. A joint venture that doesn't identify the measurements of the assets held by each member entity will not create equity or fair value for a cross border investor who can't reconcile the measurement of the assets between the two entities, and a general sentence in the accounting policy about fair value won't help.

Leases, Revenue, and the Limits of Convergence

The second research question concerns the contracts that sit on the property, rather than the measurement basis of the property alone. International Accounting Standards Board and Financial Accounting Standards Board agreed that a lessee should recognize most leases on the statement of financial position, and thereby ended the long period in which an operating lease could leave both the right of use and the duty to pay off that statement (International Accounting Standards Board, 2016; Financial Accounting Standards Board, 2016). They did not agree on the subsequent income statement. The international standard uses one model for lessees. The right of use asset is depreciated, the liability produces interest, and the expense is therefore heavier in the early years even when the cash rent is flat. The United States standard keeps a class of operating leases for which the single lease cost is usually recognised evenly over the term, even though the asset and the liability are now recognised. Ball et al. find that mandatory adoption of international standards was followed by a significant reduction in the use of accounting based debt covenants, a pattern they attribute to weaker contractibility of the numbers rather than to a simple gain in transparency (Ball et al., 2015). Whatever the wider cause, a lease expense that is heavier at the start and a lease expense that is spread evenly will not press an earnings covenant on the same date, even when the building, the tenant, and the cash payments are identical. That difference is a real consequence of an incomplete bridge, and it does not depend on any claim about investment property fair value. The comparison of contracts has to stay separate from the comparison of appraisal models if the

second research question is to be answered rather than absorbed.

Table 2. Lease and Revenue Differences That Remain after Convergence

Contract	IFRS result	US GAAP result	Gap that remains
Recognition by the tenant	An asset and a liability for almost every lease. Short term and low value concessions exist.	An asset and a liability, with a short term concession.	Recognition is largely shared. The low value concession is not.
Expense for the tenant	One model. Depreciation plus interest, heavier in the early years.	Operating lease cost is usually even. A finance lease is heavier at the start.	Covenants written on earnings can respond on different dates.
Accounting by the landlord	Finance lease or operating lease, close to the earlier model.	Sales type, direct finance, or operating.	Landlord profit still depends on transfer of control and on Collectibility.
Sale and leaseback	The sale test is the revenue standard. Gain is limited to the rights transferred.	The sale test is the revenue standard. Measurement of the right kept differs in detail.	A failed sale is financing on both sides. A successful sale is not the same gain.
Sale of development property	Revenue when control passes, including as work proceeds if there is no alternative use and a right to payment.	Revenue when control passes. The words match. Practice has a longer history of holding thin sales open.	The core model is shared. Whether profit arises as work proceeds is still a legal judgment.

Accounting by the landlord is the cleanest reminder that the lease projects served tenants first and owners of property second, if they served owners at all. A cross border landlord still distinguishes a lease that transfers the underlying asset, in substance, from a lease that does not. Under an operating lease the building stays on the lessor balance sheet and rental income is recognised over the term. Under a finance lease, or a sales type lease, the lessor removes the underlying asset and recognizes a receivable, and the profile of profit changes with that removal. The international lease standard left that lessor distinction largely in place. The United States standard retained operating outcomes and sales type outcomes for lessors, and it allows weak collectability to prevent a sales type conclusion even when other tests look as if they have been met. Hail et al. observed that a convergence programme which stops at the point of political agreement will leave industry consequences unresolved, and the accounting of landlords is one of those consequences in particularly clear form (Hail et al., 2010). An investor who places a European property owner and a United States property owner in one comparison will still have to adjust lease classification before comparing margins, the split between finance income and rental income, and the yields that are computed from reported profit. The need for that adjustment is not a failure of the reader to understand a shared standard. It is a requirement of the standards as they were actually issued. Describing both regimes as converged because both now use the word lease in the accounting policy is a ceremony that the text of the standards does not support.

A sale and leaseback is the hardest test of the lease bridge, because the projects were redesigned in part to stop gains that were only financings presented in the costume of a sale. Both languages now ask whether the transfer to the buyer lessor is a sale under the revenue standard. If it is not a sale, the seller lessee keeps the asset on its books and recognizes a financial liability, so the cash received is debt rather than proceeds of disposal. If it is a sale, the international standard restricts the gain to the rights that have actually passed to the buyer lessor, instead of allowing the seller to recognize a full profit on a building it continues to occupy under the lease. The United States standard reaches a similar restraint after amendment, but the measurement of the right that the seller keeps, and the treatment of terms that are away from the market, are not the same entry in every particular. Schipper would recognise what is at stake in that remaining difference (Schipper, 1989). A transaction that is lawful in form can still be arranged so that a gain falls into the period that flatters a covenant, a reward scheme, or a process for selling shares. Watts and Zimmerman would recognise why the stake survives a reform (Watts and Zimmerman, 1990). Changing the name of the standard does not retire the contractual reward for reporting a higher gain. This is the most important negative result in the lease comparison, and it should not be softened in order to protect a story of successful convergence. A reform can succeed at stopping an obvious false sale and still fail, inside a sale that qualifies, to produce the same gain under the two languages.

Revenue from the sale of property moved further toward a common principle than lease expense did, and it still leaves a judgment at the boundary of the building. International Accounting Standards Board and Financial Accounting Standards Board recognise revenue when control of the promised asset passes to the customer, either at a single point in time or progressively as performance occurs (International Accounting Standards Board, 2014; Financial Accounting Standards Board, 2014). Control can pass progressively when the customer controls the work as it is created, or when the asset has no alternative use to the developer and the contract gives an enforceable right to payment for the

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performance completed to date. A residence that has been sold before completion can meet that test in one jurisdiction and fail it in another, because the right to payment is a fact about legal remedies, including whether the developer can recover cost and a margin if the buyer walks away, and not a label that travels automatically with the standard. Nobes shows why identical words do not guarantee identical classifications (Nobes, 2013). Judgments that depend on local law recreate international differences inside a paragraph that looks converged on the page. Kvaal and Nobes show that such differences are sticky, because firms tend to preserve the policy pattern of their home system after they adopt the common text (Kvaal and Nobes, 2010). Collectibility is a gateway under both revenue standards, and United States practice has the longer history of holding a property sale open when the initial investment by the buyer is thin. The second research question therefore receives an answer in parts. Recognition by lessees, and the principle that revenue follows control, can be treated as a bridge. The pattern of expense, the classification used by landlords, and the conclusion that a development transfers progressively do not belong in the set of issues that convergence has closed.

Impairment, Joint Arrangements, and the Character of Reported Profit

Impairment is the setting in which the two languages either discipline an optimistic carrying amount or merely postpone the recognition of a recovery, and it is the first part of the third research question. International Accounting Standards Board measures recoverable amount as the higher of value in use and fair value less the costs of disposal (International Accounting Standards Board, 2004). Value in use discounts the cash flows the entity itself expects to receive, so the time value of money sits inside the test rather than outside it. A loss recognised under that test can be reversed in a later period if the estimates recover, although goodwill is kept outside the permission to reverse. Financial Accounting Standards Board practice for long lived assets that are held and used asks first whether cash flows, without discounting, recover the carrying amount (Financial Accounting Standards Board, 2009). Only when those undiscounted flows fail is a loss measured with reference to fair value, and a later recovery in value does not produce a reversal through profit. A tower that falls in value and later returns will show the return through profit under the investment property fair value model, may show a reversal under the international impairment standard if the cost model was in use, and will not show a reversal under the United States cost model. Landsman notes that the usefulness of fair value information depends on its reliability, which in this contrast also means that a discounted test and an undiscounted screen are not two routes to the same loss at the same date (Landsman, 2007). The archival evidence on spreads and on forecasts does not answer this impairment question, and it should not be stretched until it appears to do so.

Table 3. Archival Findings Set beside Standard Contrasts

Source	Setting	What the evidence or the rule shows
Dietrich, Harris, and Muller (Muller, 2001)	United Kingdom appraisals	Fair values are reliable against later sales on average. External appraisers do better. Assets chosen for sale are not a random set.
Muller and Riedl (Muller and Riedl, 2002)	United Kingdom property firms	External appraisers are associated with lower information asymmetry. The identity of the auditor is not the same monitor.
Muller, Riedl, and Sellhorn (Sellhorn, 2011)	European firms at the investment property mandate	Compulsory fair value provision narrowed trading spreads. Firms under the mandate remained above firms that had volunteered.
Liang and Riedl (Liang and Riedl, 2014)	United Kingdom fair value against United States cost	Net asset value forecasts are more accurate under fair value. Earnings forecasts are less accurate when unrealised gains enter profit.
Israeli (Israeli, 2015)	Recognition set against disclosure	Recognised fair values of investment property map into share price more strongly than disclosed fair values.
Impairment standards	Amounts carried at cost	International standards discount cash flows and can reverse a loss. United States practice screens undiscounted flows and does not reverse.
Joint arrangement standards	Property ventures	International standards equity account a joint venture. United States practice still reaches control through a separate analysis of rights.

Borrowing costs are nearer to each other than impairment is, and not the same rule anyway, so they can be put in the answer to the third research question, not in a footnote to a table. The International Accounting Standards Board has concluded that the capitalisation of borrowing costs applies to a qualifying asset and that a property under development is an ordinary case of a qualifying asset in this industry (International Accounting Standards Board, 2007). Capitalisation on qualifying assets also applies to United States practice, so the direction of the practice is shared and the gap is narrower than the gap on the fair value of investment property. The key difference between cross border

development and development that is not cross border is the mix of loans available to generate the capitalised rate and the way a debt in a foreign currency is treated. International practice recognizes a weighted rate from the general borrowings if the specific loan is not sufficient and, in some cases, the exchange differences are considered to be costs of borrowing which can be added to the asset if it was capitalised. In the United States, the procedures for making the debt count in the rate are more restrictive; and exchange differences are not classified as interest the same way. Requiring mandatory adoption in a broad sample, Ahmed et al. (2013) find that this rule led to more income smoothing, and to less timely recognition of losses, suggesting that a common rule does not necessarily result in a common quality of application. The carrying amount of a development may, therefore, develop on either side of the border before the signing of a lease, depending on the amount of financing provided outside the functional currency. That difference will not be the deciding factor in putting together an appraisal gain in a year when there is a quick turnaround in yields. It can be a major factor in comparison of development margins in a quiet year.

Joint agreements should be treated separately, due to the commonality of using the agreements to transfer property across borders rather than as an unusual structure tacked onto the end of a chapter. International Accounting Standards Board define a joint arrangement as a joint operation or a joint venture, and the equity method is to be used for a joint venture (International Accounting Standards Board, 2011b). To add a proportionate share of the assets and the rent, line by line is not a policy that can be done, although the prior industry practice may have been as attached as it was to this presentation. United States practice involves a variable interest analysis and the vetting and other governance rights, and a body of guidance that guides real estate ventures as to a practical decision of whether to consolidate a project or report it as a single equity line. A sponsor may hold less than 50% of the shares and control the relevant activities in accordance with a development agreement, a promoted interest or through a right which a short memorandum will understate. Jensen and Meckling then explain another agency cost that arises (Jensen and Meckling, 1976). The party who makes the reporting decision is not the residual claimant for the entire number of which that decision yields. Fama and Jensen (1983) assert that the organisational reaction that would restrict that cost is a real separation between the project managers and the project ratifies. If the separation doesn't work, the one language can report the consolidation of the tower, the debt and the movement of the appraisal for a net equity gain, whilst the other language can report a net equity gain from the consolidation of the tower, the debt and the movement of the appraisal. A trading spread that is narrower, in that situation, is not therefore an indication of a similar gain.

The role of the foreign private issuer is the bridge securities regulation actually constructed and should be articulated from the perspective of its actual size, rather than the one a story of complete convergence might aspire to. International standards, issued by the international board, are permitted to be filed without reconciling earnings to United States practice by Securities and Exchange Commission of a foreign private issuer (Securities and Exchange Commission, 2007). Eliminating that mechanical reconciliation is a real change for a European property company that trades shares in or takes out a debt in the U.S. It doesn't eliminate the economic translation an investor would need to make if he or she owned both the issuer and a domestic real estate investment trust. The National Association of Real Estate Investment Trusts (NAREIT) establishes a measure for the industry based on the profit under United States practice, restores depreciation, and generally excludes certain gains on the sale of property to arrive at funds from operations (real estate investment trusts, 2018). There has been no official twin of profit under the fair value model. The starting point is not the same object as depreciation of an investment property may already be nil and unrealised appraisals gains may already be included in earnings. Analysts respond by developing a performance metric, set by the company on both sides, and then purporting to be able to compare the scores. Liang and Riedl provide an example of the additional effort that is still required after that (Liang and Riedl, 2014). The same reporting model that makes a forecast of earnings more difficult, also makes a forecast of NAV more difficult. The schedule of adjustments is the bridge that users walk. These standards stand alone, they're not that bridge.

The character of reported profit is no longer an open compliment to the fair value model, and it is not an open compliment to the cost model either. Liang and Riedl show that unrealised gains make earnings harder to forecast even while they make net asset value easier to forecast, so the same amount can be informative about wealth and uninformative about the next period of operating profit. Danbolt and Rees show that real estate fair value income loses much of its incremental relevance once the movement in the balance sheet is already known, and that the real estate pattern is consistent with earnings management in a way the cleaner marks of investment funds are not. Schipper would class the placement itself as capable of opportunism when a permitted channel is used to obtain a private benefit,

including a benefit that runs through a reward scheme or a debt covenant without any need for a fictitious entry. Brochet et al. show that greater comparability after mandatory adoption can reduce the private information insiders exploit in their own trading, but that finding is a finding about adoption and comparability in a broad sense (Liang and Riedl, 2014; Danbolt and Rees, 2008; Schipper, 1989; Brochet et al., 2013). It is not a certificate that the profit of a property company has become a signal of future rent. La Porta et al. remain the right frame in which to close the third research question (La Porta et al., 2000). Outside owners are protected when reporting, enforcement, and the structure of ownership make expropriation harder to carry out and harder to hide. A careful external appraisal changes the room in which placement operates. It has not been shown to turn a gain driven by yields into a forecast of future rent, and it has not been shown to settle who controls a joint venture.

Conclusion

The arguments in this article support a strong but limited conclusion. The relationship between the two reporting languages and cross border real estate investment is selective. It is not a general polish that appears on any vehicle willing to print both sets of initials on the cover of a fund document. The most consistent pattern in the evidence is that recognised fair values of investment property, especially when an external appraiser prepares them, line up with lower information asymmetry and with more accurate forecasts of net asset value, and that the same full fair value model lines up with less accurate forecasts of earnings. Cost based recognition under United States practice does not carry the same balance sheet information inside profit, and a supplemental disclosure does not fully replace recognition for the users who set the price of the shares. Lease recognition has moved together for lessees. Lease classification and the pattern of expense have not moved together. Revenue recognition has moved together on the idea that profit follows control, while the judgment that a development transfers progressively remains a judgment about enforceable rights to payment rather than a settled international fact. Impairment, the capitalisation of borrowing costs when finance is in a foreign currency, and the control conclusions that decide whether a joint venture is consolidated keep the income statements apart and often keep the balance sheets apart as well. An honest appraisal does not close those gaps. It makes one of them smaller and leaves the others to be rebuilt by the user who wants a comparison rather than a slogan.

The results should alter the approach of both regulators and directors and even investors who own both types of paper to the use of the bridge. The permission is a true institutional accomplishment and a non-derogatory one, for a foreign private issuer to file standards without reconciling them with practice in the United States. The justification for that permission is the evidence that compulsory provision of property fair values reduced trading spreads for firms that were not previously involved, not that all nouns that are common to both languages generate a common profit. Other evidence indicates that an increase in formal compliance may not affect the residual. The word independence does not imply the same work as the name of the standard. The supervision of cross border funds should include a query about whether the net asset value and earnings of such funds move together, and sponsor controlled vehicles should be subject to the same question. Supervision of cross border funds should include a query to whether the net asset value and earnings of such funds move together, and such a question should be asked of widely held trusts as well as of sponsor controlled vehicles. The directors should assess the committee which is responsible for the accounts in terms of the questions it asks management regarding classification, about leases with related parties, and about the change in the basis of accounting from rental profit to appraisal gain, not by the number of standards included in the policy note. If the lender adds covenants on earnings, he or she will not be similarly assured of protection by an even lease cost, but by a cost that is greater during the early years due to the split of interest and depreciation. The narrower the spread, the more one should not assume that a promoted interest presents no hazard to minority holders. The researchers ought to have stopped adding yet another sign of adoption to a trading spread and dub the product a theory of global property accounting. Open question has become a specific question. They relate to the after the books are closed period after both models have accounted for leases, the conduct of family sponsors where external appraisals are used, separation of long horizon investors from short horizon traders, and contracts with related parties that are not covered by a single line for investment property. The task isn't to find out that both languages talk about "fair value". It is to say which part of the bridge will hold back opportunistic placement in the vehicles that dominate cross border property, and which part should be rebuilt until it does.

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