

October 14, 2016

Ms. Susan Cospers
Technical Director
File Reference No. 2016-290
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116
director@fasb.org

Delivered Electronically

Re: File Reference No. 2016-290, FASB *Invitation to Comment - Agenda Consultation*

Dear Ms. Cospers:

This letter is submitted by the National Association of Real Estate Investment Trusts® (NAREIT) to provide support and input to the Board's *Invitation to Comment - Agenda Consultation* (ITC).

NAREIT is the worldwide representative voice for real estate investment trusts (REITs) and publicly traded real estate companies with an interest in U.S. real estate and capital markets. NAREIT's members are REITs and other real estate businesses throughout the world that own, operate and finance commercial and residential real estate. NAREIT's members play an important role in providing diversification, dividends, liquidity and transparency to investors through their businesses that operate in all facets of the real estate economy.

REITs are generally deemed to operate as either Equity REITs or Mortgage REITs. Our members that operate as Equity REITs acquire, develop, lease and operate income-producing real estate. Our members that operate as Mortgage REITs finance housing and commercial real estate, by originating mortgages or by purchasing whole loans or mortgage backed securities in the secondary market.

A useful way to look at the REIT industry is to consider an index of stock exchange-listed companies like the FTSE NAREIT All REITs Index, which covers both Equity REITs and Mortgage REITs. This Index contained 221 companies representing an equity market capitalization of \$1.052 trillion at September 30, 2016. Of these companies, 181 were Equity REITs representing 94.5% of total U.S. listed REIT equity market capitalization (amounting to \$994

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billion)¹. The remainder, as of September 30, 2016, was 40 publicly traded Mortgage REITs with a combined equity market capitalization of \$58 billion.

Overarching View

While NAREIT agrees that each of the areas covered by the ITC could be improved, we do not believe that intangible assets (including research and development), pensions and other postretirement benefit plans, and distinguishing liabilities from equity represent major reporting issues. Further, in the event that the Financial Accounting Standards Board (FASB or Board) follows our recommendation to add the income statement and cash flows statement to the formal standard setting agenda, we believe that the Board should target these two areas, and make no changes to segment reporting or other comprehensive income at this time. In our view, tackling all of the aspects cited in the ITC of the reporting performance and cash flows is too expansive of a project to undertake at one time.

In its [letter](#) dated April 30, 2015 NAREIT urged the Board to formally add the *Financial Performance Reporting* project to its standards setting agenda and to pursue a management approach to developing an income statement that more effectively communicates the economic results of a company's operations. NAREIT continues to support the Board's efforts to examine reporting performance and cash flows under U.S. Generally Accepted Accounting Principles (GAAP). The use of non-GAAP measures continues to expand exponentially. We believe that one of the reasons for this expansion is that the current GAAP income statement does not provide companies the flexibility to report performance in a way that communicates the relevant economics of its operations and profitability. Further, investors clamor for more useful cash flow information. Therefore, we are pleased that the Board has included *Reporting Performance and Cash Flow* in its *Agenda Consultation*. As was the case with the joint FASB/International Accounting Standards Board *Financial Statement Presentation* project, NAREIT is committed to support this project, bringing to the table industry executives and leading investors and analysts.

Income Statement

As indicated above, NAREIT believes that income statement presentation is a major financial reporting issue and urges the Board to consider evaluating modifications to the structure of the income statement (and corresponding changes to the statement of cash flows) to significantly enhance its relevance to users of financial statements. NAREIT does not believe that the Board should attempt to develop a standardized definition of operating income. It seems to us impossible for the Board to define an operating income measure that would be relevant for all types of business; rather we believe the Board should provide principles to guide a management approach to defining operating income.

Exhibit I to this letter provides an abstract of the income statement model developed by the Real Estate Equity Securitization Alliance (REESA); a global coalition of organizations representing

¹<https://www.reit.com/sites/default/files/returns/FNUSIC2016.pdf>.



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public real estate companies from Australia, Japan, Asia, Canada, United Kingdom, the European Union and the United States. The complete model is available at <https://www.reit.com/sites/default/files/portals/0/PDF/Comment-Letter-on-FASB-Paper-041409.pdf>. This model, which was developed in response to the joint FASB/IASB *Financial Statement Presentation* project, is being provided to simply illustrate how a company or industry can, with flexibility, develop an income statement that is most relevant to investors. The model statement reports subtotals that investors and other financial statement users employ in evaluating the operating performance of REITs and other companies that own and operate portfolios of investment property. To emphasize, NAREIT is not proposing that the income statement model in the Exhibit is a model under current GAAP. This model was prepared in 2007 and generally reflects U.S. GAAP and IFRS in place at that time. At the same time, NAREIT strongly believes that achieving highly relevant performance reporting requires that any new standard provide a management approach to structuring the income statement.

Statement of Cash Flows

While NAREIT has not completed extensive research into the effectiveness of cash flow statements, it seems clear that investors and other financial statement users continue to demand more useful cash flow information. In connection with the work that REESA did in developing the income statement model discussed above, the organization also considered how the usefulness of the cash flow statement could be enhanced. We concluded, at that time, that the use of the direct method of reporting operating cash flow and a greater line-by-line interrelationship with the income statement would enhance the usefulness of the statement. At the same time, many companies believed that such a dramatic modification to the cash flow statement would not be cost effective and, therefore, NAREIT does not advocate such a dramatic modification to cash flow reporting at this time.

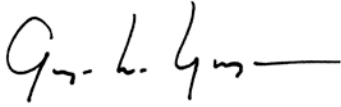
NAREIT encourages the Board to initiate a project that would consider possibilities for improving cash flow reporting. We would particularly support the standard-setting alternative to develop targeted improvements to provide greater disaggregation of specific cash flows. NAREIT agrees that reporting capital expenditures should be a specific focus of the Board's effort to improve cash flow reporting.

We thank the FASB for the opportunity to comment on the *Invitation to Comment- Agenda Consultation*. If you would like to discuss our views in greater detail, please contact George Yungmann, NAREIT's Senior Vice President, Financial Standards, at gyungmann@nareit.com or 202-739-9432, or Christopher Drula, NAREIT's Vice President, Financial Standards, at cdrula@nareit.com or 202-739- 9442.

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Respectfully submitted,



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Senior Vice President, Financial Standards
NAREIT



Christopher T. Drula
Vice President, Financial Standards
NAREIT

cc: Wesley R. Bricker, Interim Chief Accountant, Office of the Chief Accountant, Securities and Exchange Commission
Rick A. Fleming, Investor Advocate, Securities and Exchange Commission
Karen Garnett, Esq., Associate Director, Division of Corporation Finance, Securities and Exchange Commission
Sonia Barros, Esq., Assistant Director, Division of Corporation Finance, Securities and Exchange Commission
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Exhibit Global Real Estate Financial Reporting Model
Statement of Net Income
Abstract of August 2007 Model

Property Operations Income and Expense:

Gross rental revenue	\$
Interest on finance leases	
Service cost reimbursements from tenants	
Reimbursible service costs	
Property operating expenses	
Ground rent expense	
Share of net property income from unconsolidated affiliates	

Net Property Income (NPI)

\$

Other Operating Income and Expense (OOIE):

Gains/losses on sales of properties developed/acquired for sale
Other operating revenue, including third party fees
Other operating expenses
G&A
Dividend income
Share of OOIE of unconsolidated affiliates

Total Other Operating Income and Expense

\$

Income From Operations before Finance Costs and Taxes

\$

Finance costs:

Interest expense, net
Share of finance costs of unconsolidated affiliates
Gains/losses on debt extinguishment

Total finance costs

\$

Income From Operations before Taxes, including deferred taxes

\$

Taxes attributable to Net Operating Income
Share of taxes of unconsolidated affiliates

Total Taxes Attributable to IFO

\$

Income from Operations (FFO/EPRA EPS)

\$

Other Income and Expense:

Gains/losses on sale of investment property
Increase/decrease in unrealized value of investment property
Increase/decrease in unrealized value of financial instruments
Depreciation of real estate not reported at fair value
Share of other income and expenses of unconsolidated affiliates
Other
Income tax on other income/expense, including deferred taxes

Total Other Income and Expense

\$

Net Income

\$