

Officers

**Chair**

W. Edward Walter  
*Host Hotels & Resorts, Inc.*

**President and CEO**

Steven A. Wechsler

**First Vice Chair**

Ronald L. Havner, Jr.  
*Public Storage, Inc.*

**Second Vice Chair**

Michael D. Fascitelli  
*Vornado Realty Trust*

**Treasurer**

David J. Neithercut  
*Equity Residential*

**2013 NAREIT Executive Board**

Jon E. Bortz  
*Pebblebrook Hotel Trust*  
Richard J. Campo  
*Camden Property Trust*  
Edward J. Fritsch  
*Highwoods Properties, Inc.*  
David B. Henry  
*Kimco Realty Corporation*  
Rick R. Holley  
*Plum Creek Timber Company, Inc.*  
Andrew F. Jacobs  
*Capstead Mortgage Corporation*  
Dennis D. Oklak  
*Duke Realty Corporation*  
Steven B. Tanager  
*Tanger Factory Outlet Centers, Inc.*  
Robert S. Taubman  
*Taubman Centers, Inc.*  
Thomas W. Toomey  
*UDR, Inc.*  
Donald C. Wood  
*Federal Realty Investment Trust*

**2013 NAREIT Board of Governors**

Thomas J. Baltimore, Jr.  
*RLJ Lodging Trust*  
Michael D. Barnello  
*LaSalle Hotel Properties*  
William C. Bayless, Jr.  
*American Campus Communities, Inc.*  
Kenneth F. Bernstein  
*Acadia Realty Trust*  
George L. Chapman  
*Health Care REIT, Inc.*  
Bruce W. Duncan  
*First Industrial Realty Trust*  
James F. Flaherty, III  
*HCP, Inc.*  
Dennis H. Friedrich  
*Brookfield Office Properties*  
Daniel S. Fulton  
*Weyerhaeuser*  
Lawrence L. Gellerstedt, III  
*Cousins Properties Incorporated*  
Michael P. Glimcher  
*Glimcher Realty Trust*  
Jonathan D. Gray  
*Blackstone Real Estate Advisors*  
William P. Hankowsky  
*Liberty Property Trust*  
Philip L. Hawkins  
*DCT Industrial Trust, Inc.*  
Thomas P. Heneghan  
*Equity Lifestyle Properties, Inc.*  
Daniel B. Hurwitz  
*DDR Corp.*  
David J. LaRue  
*Forest City Enterprises, Inc.*  
Stephen D. Lebovitz  
*CBL & Associates Properties, Inc.*  
Thomas H. Lowder  
*Colonial Properties Trust*  
Peter S. Lowy  
*The Westfield Group*  
Craig Macnab  
*National Retail Properties Inc.*  
Joel S. Marcus  
*Alexandria Real Estate Equities, Inc.*  
Sandeep Mathrani  
*General Growth Properties*  
George F. McKenzie  
*Washington REIT*  
Donald A. Miller  
*Piedmont Office Realty Trust, Inc.*  
Timothy J. Naughton  
*AvailonBay Communities, Inc.*  
Jeffrey S. Olson  
*Equity One, Inc.*  
Adam D. Portnoy  
*CommonWealth REIT*  
Joseph D. Russell, Jr.  
*PS Business Parks, Inc.*  
Richard B. Saltzman  
*Colony Financial, Inc.*  
Michael J. Schall  
*Essex Property Trust, Inc.*  
David P. Stockert  
*Post Properties, Inc.*  
Amy L. Tait  
*Broadstone Net Lease, Inc.*  
Mark E. Zalatoris  
*Inland Real Estate Corporation*  
Mortimer B. Zuckerman  
*Boston Properties, Inc.*



**NATIONAL ASSOCIATION OF  
REAL ESTATE INVESTMENT TRUSTS®**

November 30, 2012

Ms. Susan Cosper  
Technical Director  
File Reference No. 2012-200  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116  
[director@fasb.org](mailto:director@fasb.org)

**Delivered Electronically**

**Re: File Reference No. 2012-220, Invitation to Comment: *Disclosure Framework***

Dear Ms. Cosper:

This letter is submitted by the National Association of Real Estate Investment Trusts® (NAREIT) in response to the Invitation to Comment (ITC) from the Financial Accounting Standards Board (FASB or the Board) on the *Disclosure Framework*.

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 U.S. Real Estate Index, which covers both Equity REITs and Mortgage REITs. This Index contained 160 companies representing an equity market capitalization of \$450 billion at 2011 year end. Of these companies, 130 were equity REITs representing 90.4% of total U.S. listed



Ms. Susan Cosper  
November 30, 2012  
Page 2

REIT equity market capitalization (amounting to \$407 billion)<sup>1</sup>. The remainder, as of December 31, 2011, was 30 publicly traded mortgage REITs with a combined equity market capitalization of \$43 billion.

## Executive Summary

NAREIT supports the Board's objective to improve the effectiveness of disclosures in the notes to the financial statements by clearly and concisely communicating the information that is most important to users of financial statements. NAREIT further welcomes the potential benefit of reducing superfluous, duplicative and/or irrelevant disclosures as a consequence of a sharper focus on what users of financial statements value most in evaluating the prospects of future cash flows of public companies. NAREIT believes that it is critical for companies to work with their financial statement users in order to achieve the most effective financial statement disclosures. This is not to say that the FASB has little or no role in defining disclosures. To the contrary, NAREIT believes that the Board should define information with respect to financial statement elements that would be disclosed by all entities and the Board should not attempt to define additional disclosures that would be relevant for specific entities or industries. In other words, the FASB should focus on disclosures related to transactions not on disclosures for specific industries.

To illustrate NAREIT's general views with respect to financial statement disclosures, equity REITs have developed "reporting packages" that include:

- Required footnote disclosures
- Required MD&A disclosures
- Supplemental financial information

The supplemental information has been designed through collaborative efforts by preparers and financial statement users. To illustrate, the three parts of the annual December 31, 2011 Simon Property Group "reporting package" are available at <http://investors.simon.com/phoenix.zhtml?c=113968&p=irol-reportsAnnual>.

## NAREIT Recommendations

Following are NAREIT recommendations that should assist the Board in developing an effective framework that would promote consistent decisions and the proper use of discretion by the Board, financial statement users, preparers, auditors, and regulators alike:

- **Engage all interested constituents, including regulators (*i.e.*, the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB)), preparers, analysts, and auditors, in field testing of the *Disclosure Framework***

---

<sup>1</sup> <http://returns.reit.com/reitwatch/rw1201.pdf> at page 20.



Ms. Susan Cosper  
November 30, 2012  
Page 3

- **Clearly define financial reporting boundaries for the types of events that would generate changes in future cash flows**
- **Utilize the *Disclosure Framework* to determine minimum disclosure requirements for each accounting standard that would be included in all financial statements, regardless of industry**
- **Collaborate with the SEC to eliminate existing redundancies between the notes to financial statements and disclosure requirements contained in Management’s Discussion and Analysis (MD&A)**
- **Develop a financial reporting model that delineates which disclosures belong in the notes to the financial statements as opposed to MD&A**
- **Ensure that interim disclosures are not a mere repeat of the annual disclosures unless there is a material change**
- **Maintain a summary of critical accounting policies in annual financial statements in order to preserve financial statements as a self-contained document**

**Engage all interested constituents, including regulators (*i.e.*, the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB)), preparers, analysts, and auditors, in field testing of the *Disclosure Framework***

In order to increase the likelihood of the success of the project, NAREIT believes that it would be prudent for the Board to engage all interested constituents in the process of field testing the *Disclosure Framework* by preparing and evaluating “real life” examples of financial statements. This could be accomplished through the formation of working groups with representatives of each constituent group at the table. Without obtaining the perspectives of all interested parties at the forefront, the Board runs the risk of having preparers default to a check list of disclosure requirements so as to reduce the possibility of being second-guessed by auditors and regulators. While NAREIT understands that many preparers and auditors take comfort in knowing that they complied with the “letter of the law” by following rules and ensuring compliance with the said rules through the use of check-lists, the success of this project hinges on a fundamental change in mindset amongst *all* constituents. By obtaining consensus at the commencement of the Project, there would be significantly less probability that current extensive disclosures are simply carried forward into the future.

**Clearly define financial reporting boundaries for the types of events that would generate changes in future cash flows**

The ITC discusses the importance of disclosing information about transactions or events that could potentially impact future cash flows. However, the ITC does not provide any threshold



Ms. Susan Cospers  
November 30, 2012  
Page 4

when making this assessment. For example, the possibility for future wars in the Middle East or natural disasters such as Hurricane Sandy could have a significant impact on future cash flows. These types of events are possible, but may not be probable at any given reporting date. NAREIT fears that without setting a proper boundary, companies may need to run numerous “what-if” scenarios that would increase disclosures exponentially, which appears to be in direct conflict with one of the objectives of the project. One possible way of setting a boundary would be to assess the probability of a future event of occurring.

**Utilize the Disclosure Framework to determine minimum disclosure requirements for each accounting standard that would be included in all financial statements, regardless of industry**

NAREIT shares the view that permitting or requiring selectivity to disclosure requirements would offer a significant potential for reduced disclosure volume. The ITC offers two extremes as possible approaches with the Board taking the majority of the responsibility on one end and management taking the majority of the responsibility at the other end. Under the scenario where management takes responsibility, the Board would set no specific disclosure requirements and only require that management answer the questions provided in Chapter 2 of the ITC. While NAREIT believes that most, if not all, companies would act in good faith in preparing the disclosures that they believe are most important to users of financial statements, NAREIT fears that consistency across companies within particular industries would be severely compromised. Further, NAREIT concurs with paragraph 3.10, which states:

In the U.S. legal and regulatory environment, broad general requirements like the decision questions in Chapter 2 have the potential to create significant problems, not the least of which is inconsistency. Some reporting entities probably would feel obliged to disclose every possible bit of information to avoid being second-guessed. Others might not disclose enough information. Regulators and auditors would not necessarily reach the same conclusions as reporting entities about which information is relevant<sup>2</sup>.

Given the concern surrounding inconsistent financial reporting, NAREIT strongly believes that the Board should assume most of the responsibility for establishing disclosure requirements. However, NAREIT does not believe that establishing different disclosure requirements for different entities, as is suggested in paragraph 3.8 of the ITC, is realistic and is inconsistent with the 2008 Report of the Advisory Committee on Improvements to Financial Reporting to the SEC which recommended the following:

To decrease complexity and increase comparability, we are generally advocating a move away from industry-specific guidance in authoritative literature – unless justified by strong conceptual arguments. A better approach would be to focus on

---

2

<http://www.fasb.org/cs/BlobServer?blobkey=id&blobwhere=1175824166287&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs> at page 35.



Ms. Susan Cosper  
November 30, 2012  
Page 5

the nature of the business activity itself, since the same activities, such as lending, may be carried out by companies from different industries.<sup>3</sup>

**NAREIT suggests that the Board establish a minimum set of disclosure requirements that would apply to all companies based on the company's business activities and the needs of users of financial statements.** To the extent that companies believe that additional disclosures or non-GAAP metrics are desired by analysts, management could provide supplemental disclosures outside of the financial statements. Examples of prevalent critical operating metrics that analysts use to evaluate the investment quality and credit worthiness of equity REITs include:

- Funds From Operations (a supplemental performance metric defined by NAREIT)
- Tenant sales per square foot
- Rents – increasing and decreasing in relation to tenant sales expectations
- Increases in revenues from releasing space – “releasing rent spreads”
- Net operating income – the basis of measuring the fair value of investment property
- Investment in capital improvements
- Expected returns on development properties
- Total return to shareowners

These metrics, as well as more granular supporting information, are provided by many operating real estate companies in supplemental financial information packages published along with the audited financial statements<sup>4</sup>.

**Collaborate with the SEC to eliminate existing redundancies between the notes to financial statements and disclosure requirements contained in Management's Discussion and Analysis (MD&A)**

NAREIT suggests that the FASB work with the SEC in studying existing disclosure requirements in the notes to financial statements and in MD&A and seek to eliminate redundancies. NAREIT contends that in recent history, the FASB has begun to require in the notes to the financial statements information that was historically required to be included in MD&A. NAREIT cites the FASB's recent *Financial Instruments: Disclosures about Liquidity Risk and Interest Rate Risk* (The Proposed Update) as a prime example.

---

<sup>3</sup> <http://www.sec.gov/about/offices/oca/acifr/acifr-finalreport.pdf> at page 5.

<sup>4</sup> See, e.g., <http://taubman.investorroom.com/file.php/395/4Q10+SUPP+v2.pdf>.



Ms. Susan Cospers  
November 30, 2012  
Page 6

Existing SEC disclosure rules require companies to provide disclosures surrounding contractual obligations as well as certain interest rate risk information for financial institutions on an annual basis in Management's Discussion and Analysis (MD&A). Additionally, the SEC has proposed enhanced disclosures about liquidity and funding for short term borrowings in MD&A in Proposed Rule – Short-Term Borrowings – File No. S7-22-10 (the SEC Proposal). The SEC Proposal would require registrants to disclose:

- The amount in each specified category of short-term borrowings at the end of the reporting period and the weighted average interest rate on those borrowings;
- The average amount in each specified category of short-term borrowings for the reporting period and the weighted average interest rate on those borrowings;
- For registrants meeting the proposed definition of “financial company,” the maximum daily amount of each specified category of short-term borrowings during the reporting period; and,
- For all other registrants, the maximum month end amount of each specified category of short-term borrowing during the reporting period<sup>5</sup>.

The Proposed Update would increase the frequency of the disclosures which are similar to the SEC's MD&A disclosures from an annual basis to a quarterly basis for public companies. Because the disclosure requirements in the Proposed Update are somewhat incremental to and somewhat different from existing and proposed SEC disclosure requirements, public companies would be forced to comply with both FASB and SEC disclosure requirements. NAREIT believes that the costs of establishing the Sarbanes-Oxley Section 404 internal control infrastructure to collect the data and increased fees for audit firms to review and audit the data would outweigh the potential benefit, if any, of the proposed disclosures. In NAREIT's view, redundancy in disclosure requirements should be *eliminated, not expanded*, and the Disclosure Framework project provides an opportunity for the Board to accomplish this.

### **Develop a financial reporting model that delineates which disclosures belong in the notes to the financial statements as opposed to MD&A**

NAREIT is concerned that new disclosure that are *prospective* in nature and akin to financial analysis would be required to be included in the notes to the financial statements. Today, information typically included within the financial statements is *historical*, while *forward-looking* information is generally included in MD&A. Beyond NAREIT's concern that blending financial analysis with historical information embedded in the notes to financial statements would cause confusion, NAREIT questions whether audit firms would be able to render audit reports on financial statements that include this information. NAREIT suggests that the Board develop a model that delineates which disclosures belong in the notes to the financial statements as opposed to MD&A. One possible way of accomplishing this would be to develop a principal

---

<sup>5</sup> <http://www.sec.gov/rules/proposed/2010/33-9143.pdf> at pages 15-16.



Ms. Susan Cosper  
November 30, 2012  
Page 7

that historical information is included within the financial statements, while forward looking information is generally included in MD&A.

**Ensure that interim disclosures are not a mere repeat of the annual disclosures unless there is a material change**

NAREIT has observed a growing trend in accounting pronouncements that requires companies to prepare the same types of disclosures at both interim and annual reporting dates. NAREIT questions whether detailed information can continue to be disclosed at interim periods given shorter quarterly SEC financial reporting deadlines (*i.e.*, 40 days for both large accelerated filers and accelerated filers, and 45 days for non-accelerated filers<sup>6</sup>) when compared with annual SEC financial reporting deadlines (*i.e.*, 60 days for large accelerated filers, 75 days for accelerated filers, and 90 days for non-accelerated filers).<sup>7</sup> In NAREIT's view, each interim period is an integral part as opposed to a discrete part of the annual reporting period. Therefore, NAREIT suggests that the Board consider the approach that the SEC utilizes for changes in financial condition and quantitative and qualitative disclosures of market risks. The SEC requires these disclosures in annual reports. To the extent that there has been a material change since the date of the most recent annual report, the SEC requires disclosures in quarterly filings as well. By taking this approach, the SEC has effectively reduced unnecessary disclosure duplication. NAREIT believes that the FASB could achieve its objective by taking a similar approach.

**Maintain a summary of critical accounting policies in annual financial statements in order to preserve financial statements as a self-contained document**

The ITC includes a possible change to the Summary of Accounting Policies that would move accounting policies outside of the financial statements (*e.g.*, to a company's website). The ITC reasons that doing so may reduce the volume of the report. Other alternatives include removing accounting policies where the basis of accounting is self-evident. NAREIT does not believe that either of these approaches are viable alternatives to current requirements. Users of financial statements and individual investors that do not have accounting backgrounds benefit from having accounting policies included in financial statements that represent a self-contained document on an annual basis. Therefore, NAREIT believes that a summary of critical accounting policies should continue to be disclosed in annual financial statements. At the same time, there is redundancy with SEC requirements in this area that could be reduced or eliminated by this project.

---

<sup>6</sup> <http://www.sec.gov/answers/form10q.htm>

<sup>7</sup> <http://www.sec.gov/answers/form10k.htm>



Ms. Susan Cospier  
November 30, 2012  
Page 8

We thank the FASB for the opportunity to comment on the ITC. 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](mailto:gyungmann@nareit.com) or 1-202-739-9432, or Christopher Drula, NAREIT's Senior Director, Financial Standards, at [cdrula@nareit.com](mailto:cdrula@nareit.com) or 1-202-739-9442.

Respectfully submitted,



George Yungmann  
Senior Vice President, Financial Standards  
NAREIT



Christopher T. Drula  
Senior Director, Financial Standards  
NAREIT

