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June 28, 2019

VIA ELECTRONIC SUBMISSION

Mr. Shayne Kuhaneck
Acting Technical Director
File Reference No. 2019-600
Financial Accounting Standards Board
401 Merritt 7 PO Box 5116
Norwalk, CT 06856-5116
director@fasb.org

Re: File Reference No. 2019-600, *Proposed Accounting Standards Update, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*

Dear Mr. Kuhaneck,

This letter is submitted by Nareit in response to the Proposed Accounting Standards Update - Disclosure Improvements proposed by the Financial Accounting Standards Board (FASB) on the Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative (Proposal).

Nareit serves as the worldwide representative voice for real estate investment trusts (REITs)¹ and real estate companies with an interest in U.S. income-producing real estate. Nareit's members are REITs and other real estate companies throughout the world that own, operate, and finance income-producing real estate, as well as those firms and individuals who advise, study, and service those businesses.

Nareit appreciates the FASB's proposal to codify certain disclosure requirements required by generally accepted accounting principles (GAAP) that would provide incremental information with respect to disclosure requirements issued by the Securities and Exchange Commission (SEC) in connection with its disclosure update and simplification initiative. Following are Nareit's comment on several of the Board's proposals:

Subtopic 805-50-50-3: Transactions Between Entities Under Common Control

The Proposal would require the reporting entity to disclose in notes to the financial statements the separate results of assets and liabilities or equity interests received by the reporting entity during a period, including an interim period. The separate results of each combined entity before combination would be disclosed for comparative periods presented.

¹ REITs are real estate working for you. Through the properties they own, finance and operate, REITs help provide the essential real estate we need to live, work and play. REITs own more than \$3 trillion in gross assets across the U.S. and have an equity market capitalization of \$1 trillion. In addition, more than 80 million Americans invest in REIT stocks through their 401(k) and other investment funds.



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Nareit believes that the “results” to be disclosed should not be prescriptive in order to provide for disclosures of the most relevant information based on management’s judgement. For example, virtually all REITs report *Funds From Operations* as defined by Nareit². This performance metric is accepted as an important supplemental indicator of a REIT’s operating performance by REIT managements, REIT investors, and industry financial professionals. Another important supplemental operating performance metric important to financial statement users is *net operating income*. Based on management’s judgement, these “results” would be most relevant to investors and generally would be disclosed under the requirements of this subtopic.

Subtopic 810-10-50-1c: Changes in Consolidated or Combined Entities

The Proposal would require the reporting entity to disclose in consolidated or combined financial statements when there has been a change in the legal entities included in or excluded from the corresponding financial statements as compared with the preceding fiscal period and the names of those entities.

Many real estate investment trusts, as well as other public real estate companies, operate with a significant number of subsidiary entities – some having over 700 subsidiary entities. These entities may be created and dissolved as a result of the acquisition or disposition of individual properties and, therefore, these entities may regularly move into or out of the reporting entity’s consolidated financial statements. Therefore, this requirement to report, in audited financial statements, the names of changes in these entities has the potential of significantly increasing the administrative burden associated with interim and annual reporting. Nareit appreciates the explicit discussion of materiality in the proposal and urges the Board to include this explicit discussion in the final standard.

Subsection 440-10-50-1c: Commitment - Overall

The Proposal would require that the financial statements disclose assets mortgaged, pledged or otherwise subject to lien, the approximate amounts of those assets, and the related obligations collateralized.

This is a very significant disclosure for most Nareit member companies and is generally provided by Schedule III required to be included in a registrant’s annual report on Form 10K. This schedule includes the carrying amount of each individual real estate asset, as well as any related mortgage. To require that this information be repeated in GAAP financial statements would be inconsistent with the SEC’s disclosure update and simplification initiative. We suggest that the FASB final standard specify that this requirement under the Proposal will be satisfied by a reference to an issuer’s Schedule III.

² <https://www.sec.gov/divisions/corpfin/guidance/nongaapinterp.htm>



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Subtopic 974-10: Real Estate - Real Estate Investment Trusts - Overall

The Proposal indicates that section 974-10-50-1 shall require an entity to disclose the tax status of distributions per unit (for example, ordinary income, return of capital, and capital gain).

Nareit supports the Board's proposed change to this section of the codification with certain clarifications. In reviewing the proposed disclosure, we noted that the proposed wording does not specify whether the disclosure would be required for interim and/or annual periods. This distinction is important because, while most REITs distribute dividends quarterly, the tax status of these dividends cannot be determined until the January following each calendar year, after taxable income and the tax status of distributions are calculated for the year then ended. At that time, the appropriate 1099DIV forms are generated and sent to shareholders. In addition, Nareit posts the tax status of member-company dividends on its [website](#). This tax status information applies to all dividends distributed during the previous year.

By way of background, under the Internal Revenue Code, the tax status of REIT distributions is determined as follows:

Ordinary income - distributions to the extent of a REIT's current and accumulated "earnings and profits" ("earnings and profits" is a defined term that generally, but not completely, aligns with "REIT taxable income");

Return of capital - distributions that exceed a REIT's current and accumulated earnings and profits;

Capital gain dividends - distributions of a REIT's net capital gain to the extent designated as capital gain dividends by the REIT; and

Return of capital - distributions that exceed a REIT's current and accumulated earnings and profits.

Nareit recommends that the proposed language under paragraph 974-10-50-1 be modified as follows (proposed edits are included in bold text):

An entity shall disclose the tax status of distributions per unit (for example, ordinary dividends, return of capital, capital gain) **when that tax status has been determined based on results for the previous year. The tax status of distributions made during an interim period is not required.**

We have found that many REITs provide tax status information in annual reports filed on Form 10K and in press releases. Generally, the information is provided for all annual periods presented in the annual report. We support the FASB's efforts to include this disclosure in the notes to the financial statements. In our view, this proposed change could benefit generalist investors that may not be familiar with where they can access the information before making an investment decision.



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ED Question 7 - Transition

Nareit believes that the proposed amendments should be applied prospectively to financial statements issued after the effective date of the Proposed Accounting Standards Update.

If you would like to discuss Nareit's views and recommendations, please contact George Yungmann at gyungmann@nareit.com or Christopher Drula at cdrula@nareit.com.

Respectfully submitted,

A handwritten signature in black ink that reads "George Yungmann" followed by a horizontal line.

George Yungmann
SVP, Financial Standards

A handwritten signature in black ink that reads "Christopher Drula" in a cursive style.

Christopher Drula
SVP, Financial Standards