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Sept. 22, 2021

VIA ELECTRONIC SUBMISSION:

Ms. Hillary H. Salo, Technical Director
File Reference No. 2021-004
Financial Accounting Standards Board
401 Merritt 7 PO Box 5116
Norwalk, CT 06856-5116
director@fasb.org

Re: File Reference No. 2021-004, FASB Invitation to Comment: Agenda Consultation

Dear Ms. Salo,

This letter is submitted by Nareit in response to the Invitation to Comment: Agenda Consultation.

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 invitation to constituents to provide feedback about the standard setting agenda of the Financial Accounting Standards Board (FASB) to ensure that the FASB continues to allocate its finite resources to achievable standard setting projects that fulfill its primary mission of improving financial accounting and reporting standards and addressing topics that are of the highest priority to its stakeholders.

This comment letter has been prepared by a Task Force of Nareit members (Task Force), including members of Nareit's Accounting Committee and Best Financial Practices Council. Task Force members represented financial statement preparers, practitioners, investors, and other financial statement users.

The Board's Current Agenda as of June 2021

Nareit believes that the FASB has a number of important topics on its current agenda and should complete these projects as expeditiously as possible. These projects include:

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.



1. Accounting for Joint Venture Formations

The real estate industry uses joint ventures to finance new projects, to share risks of new developments and to expand its investment property portfolio. In many cases, one joint venture partner contributes properties to the joint venture, which represents its share of the venture's equity capital.

2. Improving the Accounting for Asset Acquisitions and Business Combinations

The Definition of a Business project has provided valuable guidance since 2017. Nareit has commented on Phases 1 and 2 of the project and looks forward to the opportunity to provide input on and to the finalization of Phase 3 of the project.

3. Disclosure Improvements in Response to the SEC's Disclosure Update and Simplification Project

Nareit agrees that certain of the SEC's disclosure requirements referred to the FASB should be incorporated into the Codification.

4. Targeted Improvements to the Statement of Cash Flows

Nareit believes that an entity's net cash flows provide critical input to financial statement users' ability to project future cash inflows. Therefore, Nareit supports the FASB's examination of the effectiveness of how certain cash receipts and cash disbursements are presented in the statement of cash flows.

5. Segment Reporting Project

Nareit supports the Board's examination of the effectiveness of segment disclosures to improve these disclosures and provide users with more decision-useful information about the reportable segments of a public entity.

Nareit's Views with Respect to Certain Questions Raised in the Invitation to Comment

1. Question 14: Are there common financial KPIs or metrics—either widely applicable to all companies or industry specific—that would provide decision-useful information if they were defined by the FASB? Please explain.

Based on Task Force input and Nareit's extensive experience defining Nareit Funds From Operations (Nareit FFO), an industry-specific financial metric, Nareit believes that the FASB should not attempt to define KPIs or metrics, used by specific industries. Because specific industry metrics are generally designed to reflect the industry's underlying economics, defining a specific industry metric requires a complete understanding of the economics of the industry. It would be a massive job for the FASB to



gain this understanding across a wide range of industries. Further, definitions of specific industry metrics may need to be revised as industry sectors mature and business conditions change.

Nareit has broad and deep experience with respect to defining certain relevant non-GAAP metrics (e.g., Nareit FFO). Because most real estate investors believe that GAAP depreciation of the cost of real estate does not fully reflect the economics of the real property, many investors believe that GAAP net income alone does not sufficiently address the economics of the real property or portfolios of real estate. To provide investors with a supplemental metric that more closely reflects the economics of real estate, Nareit developed the non-GAAP metric FFO in 1991 as a performance metric that supplements GAAP net income. REITs report this real estate industry metric on absolute and per share bases. FFO has been widely accepted as a supplemental performance metric by investors and other industry participants.

In 2002, the SEC issued a proposed rule for reporting non-GAAP metrics. Nareit provided extensive comments on the proposed rule. The [final rule](#) issued Nov. 4, 2002 and the [SEC's Frequently Asked Questions Regarding the Use of Non-GAAP Financial Measures \(FAQ\)](#) dated June 13, 2003, provide that FFO is a non-GAAP metric that can be reported on a per-share basis.

The SEC has closely monitored the reporting of non-GAAP metrics to ensure that the reporting complies with the final SEC rule. Among other requirements, the SEC ensures that:

- a. the non-GAAP metric is reconciled to the most closely related GAAP metric;
- b. the non-GAAP metric is not given more prominence than the GAAP metric; and
- c. appropriate explanations and other disclosures are included in the report.

These SEC rules are clearly working and, therefore, Nareit sees no need for the FASB to define industry metrics or KPIs.

2. Financial Performance Reporting

The ITC indicates that many financial statement users suggest that the FASB prioritize improvements to require that companies disaggregate certain income statement items to increase transparency and allow investors to adjust the information for their own analyses. As a result of feedback received on the 2016 Agenda Consultation ITC, the FASB has projects on its research and technical agendas on financial performance reporting and segment reporting.

Nareit agrees with the FASB's conclusion to put the financial performance projects on hold pending further progress on the FASB's segment reporting project and the IASB's primary financial statement project.

3. Partially Owned Subsidiaries and Equity Method Investment

Investors have requested more transparency into the detail of operations and cash flows partially owned subsidiaries and equity method investments. Further, the ITC suggests that companies might be permitted to elect to apply the fair value option for equity method investments.

Nareit does not believe that applying the fair value option to partially owned subsidiaries and equity method investments would provide investors the operating and cash flow information desired.

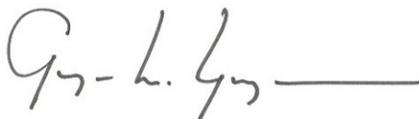
An alternative would be to design a project that would evaluate the usefulness of providing the information that investors are looking for in the form of proportionate share financial statements. In addition, the project could evaluate whether pro-rata consolidation with the investor's financial statements would provide decision-useful information.

4. Basis for Conclusions Included in Codification

Nareit recommends that the FASB include the Basis for Conclusions in the codification along with each newly issued standard. The Basis for Conclusions provides background and the Board's considerations in coming to conclusions and possible alternative conclusions. Additionally, the Basis for Conclusions provides important information in cases where the standard requires interpretation. Currently, in many cases preparers must rely on interpretations of standards developed by the company's audit firm.

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 for financial standards, at gyungmann@nareit.com or 202-739-9432, or Christopher Drula, Nareit's senior vice president for financial standards, at cdrula@nareit.com or 202-739-9442.

Respectfully submitted,



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