NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

November 30, 2015

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Request for Public Comment on the Effectiveness of Financial Disclosures about Entities other than the Registrant

Dear Commissioners:

This letter is submitted by the National Association of Real Estate Investment Trusts® (NAREIT) to provide input on the Request for Public Comment on the Effectiveness of Financial Disclosures about Entities other than the Registrant (the Proposal).

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 224 companies representing an equity market capitalization of $890 billion at October 31, 2015. Of these companies, 183 were Equity REITs representing 93.8% of total U.S. stock exchange-listed REIT equity market capitalization (amounting to $835 billion). The remainder, as of October 31, 2015, is represented by 41 stock exchange-listed Mortgage REITs with a combined equity market capitalization of $55 billion.

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This letter has been developed by a task force of NAREIT members, including members of NAREIT's Best Financial Practices Council (the Council). Members of the task force include financial executives of both Equity and Mortgage REITs, representatives of major accounting firms, institutional investors and industry analysts.

NAREIT Recommendations

NAREIT supports the SEC's objective to improve the effectiveness of disclosure requirements in Regulation S-X for certain entities other than the registrant. NAREIT appreciates the SEC's efforts as part of the Disclosure Effectiveness Initiative to revisit existing regulations to ensure that the financial statements clearly and concisely communicate the information that is most relevant to users of financial statements. NAREIT further welcomes the potential benefit of reducing costs and complexity 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.

After evaluating the Proposal, NAREIT recommends that the SEC:

- Increase and align the significance percentage thresholds utilized in S-X Rules 3-05, 3-09 and 3-14;
- Define another measure as a performance metric for the income test (*i.e.*, Earnings Before Income Taxes, Depreciation and Amortization (EBITDA) or Funds from Operations (FFO)) that more faithfully represents the underlying economics of acquired interests in other entities in transactions involving investment property (*e.g.*, shopping mall, office buildings and apartments); and,
- Establish a single year requirement for stand-alone financial statements for acquired interests in other entities.

Following is the rationale in making these recommendations:

Increase and align the significance percentage thresholds utilized in S-X Rules 3-05, 3-09, and 3-14

In the context of real estate transactions, the consensus amongst our task force is that far more transactions meet the requirements under S-X regulations than was originally intended for mandatory disclosure. One possible solution for this phenomenon is to raise the threshold to focus the users of financial statements on transactions that are truly material to the acquirer. Discussions with industry investors indicated that, while audited pre-acquisition financial statements of the acquired interest are useful, this usefulness is marginal. One investor indicated that he uses these financial statements "when time permits". Therefore, NAREIT does not believe that the effort and costs to meet the current S-X requirements meet any reasonable cost/benefit test. Raising and aligning the significance threshold and reducing the required periods to one year (see below) would balance the cost and benefit of the S-X requirements.

Define another measure as a performance metric for the income test (*i.e.*, Earnings Before Income Taxes, Depreciation and Amortization (EBITDA) or Funds from Operations (FFO)) that more faithfully represents the underlying economics of acquired interests in other entities in transactions involving investment property (*e.g.*, shopping mall, office buildings and apartments)

Another possible solution would be to consider replacing the income test with a different performance metric. Because of the unique significance of depreciation related to investment property, net income from operating these properties is very low relative to the other economics of owning and operating portfolios of investment property. Therefore, another possibility to achieve a reasonable cost/benefit result would be to use a metric such as EBITDA or FFO, to evaluate the significance of an acquisition. This could solve two issues: (1) the challenge with consistently meeting the income test requirements when net income is near break-even, and (2) requiring management to disclose information that they would have used as the basis for their own investment decision. When making the investment decision, REITs will often consider whether the investment is accretive to their current portfolio of investment properties. The measures used to evaluate accretion cited by the task force include EBITDA and FFO.

Establish a single year requirement for stand-alone financial statements for acquired interests in other entities

Preparers cite audit fees and time constraints as examples of the costs and complexities associated with the current S-X regulations. Further compounding these challenges are situations where the acquired investment is in a private entity. One possible way to reduce audit fees and the time spent by accounting personal would be to establish a single year requirement for stand-alone financial statements.

NAREIT continues to support the Commission's Disclosure Effectiveness Initiative and would welcome an opportunity to discuss our views on the Proposal with the Commission. If there are questions regarding this comment letter, please contact either George Yungmann at 202-739-9432 or gyungmann@nareit.com or Christopher Drula at 202-739-9442 or cdrula@nareit.com.

Respectfully submitted,

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