

NAREIT Financial Reporting

ALERT



NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS®

SEC STAFF CLARIFIES GUIDANCE ON FFO REPORTING

On June 20, 2003, NAREIT issued a Financial Reporting Alert, *SEC Staff Issues Guidance on FFO Reporting*. Based upon the SEC's *Frequently Asked Questions* issued on June 13, 2003, the NAREIT Alert reported that, when the SEC referred to "funds from operations" in its final Rule regarding *Conditions for the Use of Non-GAAP Financial Measures* (Release No. 34-47226), it meant "funds from operations" (FFO) as defined and clarified by NAREIT as of January 1, 2000. The Alert further indicated that NAREIT staff was discussing with senior SEC staff their rationale for referring to the January 1, 2000 date.

Based on a number of discussions with SEC officials at the Division of Corporation Finance, it is clear that the Commission staff did **not** intend to limit its reference to FFO as defined by NAREIT as of January 1, 2000. The SEC staff advised us that footnote 50 of the Rule contemplated the measure of FFO as currently defined and clarified by NAREIT.

Therefore, we believe that the staff's position is that the use of FFO, as defined by NAREIT, meets the provisions of Item 10(e) of Regulation S-K and that the use of measures that contain modifications to NAREIT's FFO definition in materials filed with the Commission would separately be subject to all of the provisions of Item 10(e) of Regulation S-K.

Furthermore, we were advised that the Commission staff did not intend to imply that the measure of FFO, as defined by NAREIT, is a static definition. Rather, the Commission staff recognizes that the definition of FFO might change from time to time to address relevant changes in accounting standards, Commission rules and regulations and periodic best practices review. As a result, SEC staff has indicated its willingness to consider any subsequent modifications or clarifications made by NAREIT to its FFO standard in order to ensure the continuing favorable status of FFO (as defined by NAREIT) for purposes of reporting under the Commission's Rule with respect to the use of Non-GAAP financial measures.

Any questions regarding this matter should be directed to
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