

# National Policy Bulletin

**Effective January 1, 2000, Funds From Operations (FFO) will include both recurring and non-recurring results of operations.**

November 8, 1999

At its meeting on October 27, NAREIT's Leadership approved the following recommendations of the Best Financial Practices Council with respect to clarifying the industry's supplemental performance benchmark:

- The industry's supplemental performance measure should include all operating results, both recurring and non-recurring -- except those results defined as "extraordinary items" under generally accepted accounting principles (GAAP) and gains and losses from sales of depreciable operating property;
- The industry's supplemental performance measure should continue to be labeled "Funds From Operations" (FFO);
- The clarification of FFO is effective January 1, 2000;
- Calculation of FFO based on this clarification should be shown for all periods presented in financial statements or tables; and
- Disclosures should include the information recommended in the NAREIT White Paper on Funds From Operations.

Consistent with this clarification, non-recurring items that are not defined as "extraordinary" under GAAP will be reflected in the calculation of FFO. Examples include, but are not limited to, the following:

- Gains and losses on derivative and hedging arrangements;
- Costs of abandoned transactions;
- Provisions for potential losses, other than those related to depreciable operating property;
- Merger integration and REIT conversion costs;
- Costs of unusual compensation or severance arrangements; and
- Debt restructuring costs (except those defined as "extraordinary" under GAAP).

As provided in the NAREIT White Paper on Funds From Operations, the Council wishes to emphasize that:

- "NAREIT adopted the term Funds From Operations in the belief that it would be useful if after-tax income plus depreciation and amortization were to be used as a supplemental measure (emphasis added) of operating performance;
- The underlying premise of the definition of FFO [is] not to sanction deviations from GAAP in the name of calculating Funds From Operations. [T]he definition specifically refers to GAAP net income as the starting point in the calculation of FFO [i.e., all revenues and expenses included in FFO should be measured in accordance with GAAP, including straight-lined rents and deferred income taxes]; and
- FFO [also is] not intended to be used as a measure of the cash generated by a REIT nor of its dividend paying capacity."



The Council's recommendations were based on a year-long evaluation of the industry's supplemental performance benchmark at the direction of NAREIT's Leadership. At the beginning of 1999, the Council surveyed member company executives, investment analysts, institutional investors and other industry participants regarding the effectiveness of FFO. This survey indicated that certain modifications or clarifications to FFO might be appropriate. In June, the Council issued a discussion paper regarding the industry's supplemental performance benchmark and requested membership comments on issues raised in the paper. The Council's consideration of these comments, as well as a report of an implementation task force established by the Council, formed the basis for the Council's recommendations. The Council wishes to thank all of those who participated in this evaluation of the industry's supplemental performance benchmark.

NAREIT's White Paper on Funds From Operations has been revised to reflect this clarification of the benchmark and to provide guidance in implementing this clarification. The revised FFO White Paper is available on NAREIT's web site at [www.nareit.com](http://www.nareit.com) (click on "Accounting Issues" and "FFO White Paper"). Members are urged to follow the principles and guidance described in the Paper.