



# SFO Alert (February 27, 2015)

NAREIT's Accounting & Financial Standards Hot Topics

REIT  
NAREIT

## SFO Alert

February 27, 2015

### FASB PROVIDES LESSORS WITH TRANSITION RELIEF FOR INITIAL DIRECT LEASING COSTS

On Feb. 25, NAREIT observed a **meeting** of the Financial Accounting Standards Board (FASB or Board) in Norwalk, CT on the Leases Project. Among the topics discussed was transition for the new Leases standard (the New Standard). The Board typically favors comparability of financial reporting before and after the effective date of new financial standards, thereby requiring companies to retroactively restate comparative periods presented in the financial statements. However, at the meeting, the Board decided to require a modified retrospective transition method (with specified reliefs) for existing operating leases. Of particular interest to NAREIT member companies operating as equity REITs was the relief that the Board afforded with respect to initial direct leasing costs. Previously, the Board decided that initial direct leasing costs would be expensed as incurred, which would represent a significant change in current practice. However, in order to alleviate the burden for companies that currently capitalize these costs, the Board decided that lessors would not be required to reassess initial direct leasing costs for any existing leases. Thus, companies would be able to continue to amortize any initial direct leasing costs that were previously capitalized and amortized prior to the effective date of the New Standard. This transition relief avoids writing off the remaining unamortized balance of leasing costs previously deferred upon adoption.

At the current time, Board has not established an effective date for the New Standard. The Board plans to discuss the effective date at a future meeting.

## FASB ISSUES FINAL STANDARD TO AMEND EXISTING CONSOLIDATION GUIDANCE

On Feb. 18, the Financial Accounting Standards Board (FASB or Board) issued Accounting Standards Update *Consolidations (Topic 810): Amendments to Consolidations Guidance* (the Final Standard). The Final Standard amends the consolidation guidance for variable interest entities (VIEs) and voting interest entities. In so doing, the FASB mandates the application of consolidation guidance to investment companies, which had previously been indefinitely deferred. The Final Standard impacts the consolidation analysis and documentation that NAREIT member companies perform surrounding limited partnerships and securitization vehicles (e.g., collateralized debt obligations and collateralized loan obligations). Regardless of whether companies arrive at a different decision with respect to consolidation, companies will need to revise internal control processes and procedures to reflect the evaluation performed pursuant to the new guidance in the Final Standard.

Among other items, the Final Standard:

- › Eliminates the presumption that a general partner should consolidate a limited partnership and removes the consolidation model that previously applied to limited partnerships;
- › Clarifies when fees paid to a decision maker (e.g., asset manager) should be a factor to include in the consolidation analysis for VIEs, thereby placing a greater emphasis on the risk of loss when evaluating consolidation risk; and,
- › Amends the guidance for how to assess related party relationships that affect the consolidation evaluation for VIEs.

For public companies, the Final Standard is effective for periods beginning after Dec. 15, 2015. For private companies, the Final Standard is effective for annual periods beginning after Dec. 15, 2016, and for interim periods beginning after Dec. 15, 2017.

Early adoption is permitted, including adoption in an interim period.

## CONTACT

For further information, please contact George Yungmann, NAREIT's SVP, Financial Standards, at [gyungmann@nareit.com](mailto:gyungmann@nareit.com) or Christopher Drula, NAREIT's Vice President, Financial Standards, at [cdrula@nareit.com](mailto:cdrula@nareit.com).

---