

NOI/FFO as GAAP Metrics – a Possibility? Meeting

Thursday, April 2nd

9:30am – 10:45am

*JW Marriot Desert Ridge Resort & Spa
Phoenix, AZ*

Moderator:

George Yungmann, SVP-Financial Standards, NAREIT

Panelists:

Marc Siegel, Board Member, Financial Accounting
Standards Board

David Smetana, Managing Director, Morgan Stanley

Financial Performance Reporting

Research Project



FINANCIAL
ACCOUNTING
STANDARDS BOARD

A Research Project on Presentation



FASB directed staff to perform research on a financial statement presentation project in January 2014

Re-scoped from the previous financial statement presentation project, which went inactive in 2011

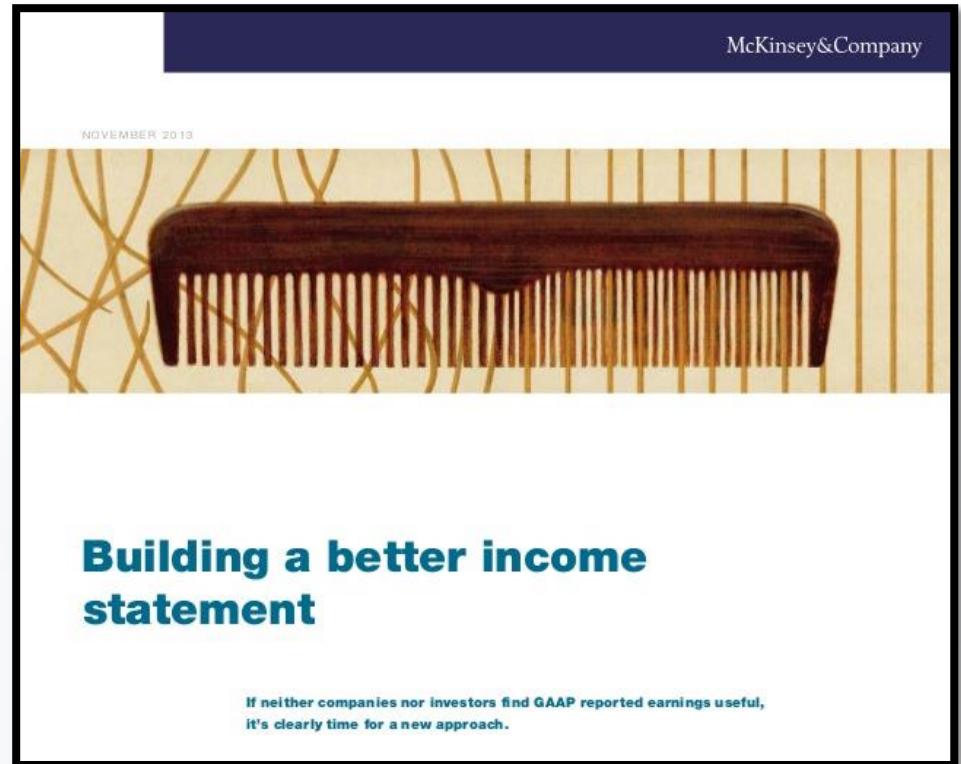
Objective of research is to identify & evaluate alternatives for improving financial statement presentation

Following the research phase, goal is to activate a project on FASB's active agenda

Reasons for undertaking this project

Ranked as a high priority in 2013 agenda survey by FASB Advisory Group

Stakeholders continue to raise concern with usability of income statement – McKinsey



Scope of the Research Project

Primary objective

The primary objective is to evaluate ways the FASB might improve the relevance of information presented in the performance statement.

Two focus areas for the performance statement:

- (1) a framework for determining an operating performance metric
- (2) distinguishing between recurring & nonrecurring or infrequently occurring items

Scope of the Research Project (cont.)

Improvement areas	Performance reporting
Priority focus areas	
Operating performance metric	✓
Non-recurring or infrequent items	✓
Areas where related improvements may also be considered	
Transparency of remeasurements	✓
Additional disaggregation in the performance statement	✓
Related changes to segment reporting	✓
Linkages across the primary statements	✓

Meaning of a remeasurement

A remeasurement is an income statement item that is:

- a change in (or realization of) a current price of value
- a change in an estimate of a current price or value, or
- a change in an estimate or measurement method

For example:

- Asset impairments such as intangibles & fixed assets
- Change in the method for estimating a warranty obligation
- Changes in the income tax rates

Areas unlikely to be addressed

The following areas are unlikely to be pursued in this project:

- Direct Cash Flow Statement
- COGS
- Earnings Per Share
- Other Comprehensive Income

Previous performance reporting projects

FASB (1979)

- Reporting Earnings Task Force – Discussion Memorandum
- Analysis of Issues Related to Reporting Earnings

FASB (1981)

- Conceptual Framework – Exposure Draft
- Reporting income, Cash Flows & Financial Position

AICPA (1994)

- Jenkins' Committee Report
- Special Committee on Financial Reporting

Previous performance reporting projects

FASB & G4+1 (1998)

- G4+1 – Special Report
- Reporting Financial Performance

UK ASB (2000)

- Exposure Draft
- Reporting Financial Performance

FASB & IASB (2008)

- Joint Project – Discussion Paper
- Preliminary Views on Financial Statement Presentation

FASB & IASB (2010)

- Joint Project – Staff Draft of an Exposure Draft
- Financial Statement Presentation

Differences from the Previous FSP Project

Major improvements sought in the 2010 Staff Draft

Core principles

Disaggregation principle (three primary statements by function, nature & measurement)

Cohesiveness principle (three primary statements into operating, investing, financing)

Other major changes proposed

Separate note disclosure of income statement remeasurements

Separate note disclosure of changes in assets & liabilities (rollforwards)

Enhanced disclosures in the segment reporting note

Direct method cash flow statement

Operating Performance Metric

Key premise: Operating performance metric is the net result of a defined set of *operating activities*

Research into ways to define operating activities

- Current practice in presenting operating income
- Previous standard setting attempts
- International practices
- Academic research
- Conceptual framework

Public Board meeting held in February

Disaggregation of line items – Next steps

Ideas considered:

- Infrequency/nonrecurring notion
- Remeasurements notion
- Function/nature



The next public meeting will focus on infrequent/nonrecurring items.

The Board will revisit defining operating activities after it considers disaggregation

Aggregation of line items – Next steps

Potential factors for grouping:

- Characteristics of the recognized items
- Activity from which recognized item resulted
- Measurement method
- Timing & uncertainty of prospects for future cash flows



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NOI/FFO as GAAP - a possibility

April 2, 2015

Session Faculty

- ◆ George Yungmann, moderator, SVP-Financial Standards
- ◆ Marc Siegel, Board Member, FASB
- ◆ David Smetana, Managing Director, Morgan Stanley

Topics to be Discussed

- ◆ FASB Project -- *Financial Performance Reporting*
- ◆ An analyst's use of the current GAAP income statement and the importance that non-GAAP metrics and other information be supported by amounts reported in the GAAP income statement
- ◆ Might important industry metrics be reported in a statement of operating performance – a management approach to reporting
- ◆ The importance of input to the FASB from investors and preparers

Introduction and Context

- ◆ Industry non-GAAP metrics, like *net operating income* and *funds from operations* have served the industry well for over 20 years
- ◆ The industry has provided investors solid returns over those years using non-GAAP metrics and supplemental information
- ◆ Why would the industry like to report industry metrics under GAAP
- ◆ The global industry's 2007 consensus for a statement of comprehensive income

An Analyst's Use of the Current GAAP Income Statement and the Importance of Linkage to Audited GAAP Reporting

What We Focus On

- ◆ Addition of Net Property Income line-item further solidifies the view that REITs are proxies for real estate
 - ◆ We are not a collection of leases or financing arrangements
 - ◆ NPI or NOI is a staple in calculating cap-rates and NAV calculations
 - ◆ General and Administrative expenses need to be considered
- ◆ Revenues
 - ◆ Cash vs. Non-cash (straight-line rent and FAS 141)
 - ◆ Recurring vs. Non-recurring (lease termination fees and credit losses)
 - ◆ TRS activities (billboards, outparcel sales, etc.)
- ◆ Expenses
 - ◆ Property operating expenses vs. general and administrative
 - ◆ Allocations vary widely by company
 - ◆ We compare G/A as a % of Assets – 60 bps on average
 - ◆ Capitalized expenses

What we would like to see...

- ◆ More uniform definition of same-store NOI (SSNOI)
 - ◆ Wide-range of definitions
 - ◆ Basic description in the financials of the policy; what is in the pool and what is not
 - ◆ Treatment of re-developments (compare a center with 120k sf to 100k sf?)
- ◆ SSNOI Revenue and Expense line items broken-out separately
 - ◆ Best practices to date show each line-items on I/S (Cash and GAAP)
 - ◆ Some firms still quote in text a SSNOI number with no tie to audited financial
- ◆ Cap-Ex with Same-store NOI
 - ◆ How much cap-ex was spent on the properties in each year