

FASB Simplification Initiative

Goals and Facts:

- 1) To make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects.
- 2) Intended to improve or maintain the usefulness of the information reported to investors while reducing costs and complexity in financial reporting.
- 3) Initiative is a natural offshoot of the FASB Disclosure Effectiveness project.
- 4) Projects impact all financial statement users, not just private companies.

Completed Projects Impacting REITs:

- 1) Extraordinary Items – Eliminates from GAAP the concept of extraordinary items, which was rarely used in practice yet still sometimes required significant time spent on the assessment (for instance following the events of 9/11). Effective 1/1/16 for calendar year-end companies with early adoption permitted as long as it is applied in the first quarter of the adoption year.

Note: The FASB website and more specifically the section called “Simplifying Accounting Standards” has been used as a source for this presentation.

FASB Simplification Initiative (continued)

Current Projects Impacting REITs:

- 1) Presentation of Debt Issuance Costs – Would require that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the corresponding debt liability, consistent with debt discounts (contra liability as opposed to an asset). Final standard expected in Q2 2015.
- 2) Share Based Payments:
 - a) Accounting for Forfeitures – For share-based payments with only service conditions, companies could elect to account for forfeitures as they occur or continue to estimate forfeitures upfront and true-up the estimates over time as is currently required.
 - b) Minimum Statutory Withholding Requirements – The amount of shares withheld/repurchased to satisfy the minimum statutory income tax withholding obligation could be up to the maximum marginal tax rate in a given jurisdiction without triggering liability/fair value classification for the entire stock award.

Final standard is expected in 2015.

- 3) Clarifying Certain Existing Principles on Statement of Cash flows – The FASB is looking to reduce diversity in practice through the clarification of certain existing principles for classifying cash flows. Examples of issues noted include the following:
 - Insurance proceeds, including from company-owned captives
 - Debt prepayment or extinguishment costs
 - Classification of changes in restricted cash
 - Classification of dividends from equity method investees
 - Classification of cash flows from securitizationsNo timetable for this project was listed on the FASB's website.

FASB Simplification Initiative (continued)

Current Projects Impacting REITs (continued):

- 4) Accounting for Income Taxes – Intra-Entity Asset Transfers – Would eliminate the exception for recognition of income taxes on intercompany transactions. Instead, recognition of the current and deferred income tax consequences of an intra-entity asset transfer would be required when the transfer occurs as opposed to waiting until the assets have been sold to a third party. Final standard is expected in Q2 2015.

The FASB Simplification Initiative contains various other projects that could have an impact on selected REITs with defined benefit pension plans and classified balance sheets and/or for those REITs that are considered private companies. More information can be obtained on the FASB website in the section called “Simplifying Accounting Standards”.