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NATIONAL ASSOCIATION OF  
REAL ESTATE INVESTMENT TRUSTS®

December 8, 2015

Ms. Susan M. Cosper  
Technical Director  
File Reference No. 2015-310  
Financial Accounting Standards Board  
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**Delivered electronically**

**RE: Proposed Accounting Standards Update – Notes to Financial Statements (Topic 235) – Assessing Whether Disclosures Are Material**

Dear Ms. Cosper:

This letter is submitted by the National Association of Real Estate Investment Trusts® (NAREIT) to provide input on the Proposed Accounting Standards Update – Notes to Financial Statements (Topic 235) – Assessing Whether Disclosures Are Material (the Proposal).

NAREIT is the worldwide representative voice for real estate investment trusts (REITs) and publicly traded real estate companies with an interest in U.S. real estate and capital markets. NAREIT's members are REITs and other real estate businesses throughout the world that own, operate and finance commercial and residential real estate. NAREIT's members play an important role in providing diversification, dividends, liquidity and transparency to investors through their businesses that operate in all facets of the real estate economy.

REITs are generally deemed to operate as either Equity REITs or Mortgage REITs. Our members that operate as Equity REITs acquire, develop, lease and operate income-producing real estate. Our members that operate as Mortgage REITs finance housing and commercial real estate, by originating mortgages or by purchasing whole loans or mortgage backed securities in the secondary market.



A useful way to look at the REIT industry is to consider an index of stock exchange-listed companies like the FTSE NAREIT All REITs Index which covers both Equity REITs and Mortgage REITs. This Index contained 224 companies representing an equity market capitalization of \$890 billion at September 30, 2015. Of these companies, 183 were Equity REITs representing 93.8% of total U.S. stock exchange-listed REIT equity market capitalization (amounting to \$835 billion)<sup>1</sup>. The remainder, as of September 30, 2015, is represented by 41 stock exchange-listed Mortgage REITs with a combined equity market capitalization of \$55 billion.

This letter has been developed by a task force of NAREIT members, including members of NAREIT's Best Financial Practices Council (the Council). Members of the task force include financial executives of both Equity and Mortgage REITs, representatives of major accounting firms, institutional investors and industry analysts.

### **NAREIT supports the Proposal's Objective**

NAREIT supports the FASB's objective to improve the effectiveness of disclosures in notes to financial statements. NAREIT appreciates the FASB's efforts as part of the Disclosure Framework to revisit existing requirements to ensure that the financial statements clearly and concisely communicate the information that is most relevant to users of financial statements. NAREIT further welcomes the potential benefit of reducing costs and complexity as a consequence of a sharper focus on what users of financial statements value most in evaluating the prospects of future cash flows of public companies.

NAREIT strongly supports the following aspects of the Proposal:

- The elimination of phrases like "an entity shall at a minimum provide" and other wording that could appear to limit an entity's discretion to omit immaterial disclosure;
- The explicit statement that the omission of an immaterial required disclosure is not an accounting error; and,
- The proposed amendments should be effective upon issuance.

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<sup>1</sup> <https://www.reit.com/sites/default/files/reitwatch/RW1510.pdf> at page 21.

## **NAREIT recommendations**

- **Work in a concerted way with other regulators (*i.e.*, the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB)) to ensure the success of the FASB's Disclosure Framework and SEC's Disclosure Effectiveness Initiative; and,**
- **Expand the scope of the project to apply materiality to the financial statements taken as a whole.**

Following is the rationale in making these recommendations.

### **Work in a concerted way with other regulators (*i.e.*, the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB)) to ensure the success of the FASB's Disclosure Framework and SEC's Disclosure Effectiveness Initiative**

NAREIT observes that the tension surrounding the definition of materiality is not limited to the FASB. In order to ensure successful application of the Proposal in practice, NAREIT recommends that the FASB work with other regulators like the SEC and PCAOB to ensure that there is a collaborative and consistent approach taken once the Proposal is finalized. There would be a natural hesitation on the part of preparers to reduce or eliminate immaterial disclosure at the expense of being second-guessed by auditors or regulators after financial statements have been filed with the SEC. Standard setting and public statements by officials at the SEC and PCAOB would alleviate these concerns and provide preparers with peace of mind.

### **Expand the scope of the project to apply materiality to the financial statements taken as a whole**

NAREIT observes that the scope of the project is limited to the notes to the financial statements. In our view, there would be additional benefit in expanding the scope of the project to include the financial statements as well. NAREIT believes that it would be beneficial to have explicit statements in U.S. GAAP that acknowledge that not following U.S. GAAP for immaterial items would not be considered an error.

Ms. Susan Coper  
December 8, 2015  
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NAREIT continues to support the FASB's Disclosure Framework Project. If there are questions regarding this comment letter, please contact either George Yungmann at 202-739-9432 or [gyungmann@nareit.com](mailto:gyungmann@nareit.com) or Christopher Drula at 202-739-9442 or [cdrula@nareit.com](mailto:cdrula@nareit.com).

Respectfully submitted,



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