NAREIT Alert (December 14, 2015)

NAREIT Alert Important Industry Updates from NAREIT

December 14, 2015

On Nov. 23, the Financial Accounting Standards Board (FASB or Board) issued a proposal (the Proposal) that is intended to clarify the definition of a business. The objective of the proposal is to add further guidance that would assist preparers in evaluating whether a transaction would be accounted for as an acquisition of an asset or a business. This project is of particular interest to NAREIT members, as the project will revisit the definition of a business that was developed in Statement of Financial Accounting Standards (FAS) 141(R), Business Combinations. Under that guidance, the definition of a business was so broad that even the acquisition of a single investment property qualified as a business combination. As a result, acquisition costs incurred by a company in acquiring an investment property were required to be expensed pursuant to U.S. GAAP. Prior to FAS 141(R), acquisition costs were capitalized and amortized over the life of the acquired asset. If you are interested in participating in a NAREIT task force that will evaluate the Proposal and consider whether NAREIT should develop a comment letter, please contact Christopher Drula at cdrula@nareit.com by Jan. 6, 2016. Comments on the Proposal are due to the Board by Jan. 22, 2016.

The Proposal includes a new framework to evaluate whether an acquisition qualifies as an asset acquisition or a business combination. The first step would be to apply a materiality threshold to the asset or assets acquired. If substantially all of the fair value of the gross assets acquired is concentrated in a single asset (or group of similar assets), the transaction would be considered an asset acquisition, and further evaluation would not be necessary. If the acquisition "fails" the substantially all test to qualify as an asset acquisition, the transaction would then be evaluated for whether it includes: 1) an input; and, 2) a substantive process that together contribute to the ability to create outputs. If both of these items are included in the transaction, the transaction would qualify as a business combination as opposed to an asset acquisition.

NAREIT believes that this proposed framework would largely address the industry's current concerns about U.S. GAAP requiring too many transactions to be accounted for as business combinations.

The Proposal would be applicable on a prospective basis for transactions that occur after the effective date. The FASB will establish the effective date after evaluating the comment letter feedback on the Proposal.

Contact

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