

NAREIT Alert (October 18, 2016)

NAREIT Alert Important Industry Updates from NAREIT

October 18, 2016

Further Guidance on Pro-Rata Reporting of Non-GAAP Financial Measures and Metrics

On Oct. 17, NAREIT held further discussions on pro-rata reporting with the Securities and Exchange Commission (SEC or Commission) staff in the Division of Corporation Finance.

NAREIT understands that the SEC staff will object to the use of the full presentation of non-GAAP pro-rata financial statements. The staff believes that this presentation is inconsistent with the Commission's rules for reporting non-GAAP financial measures and recent staff guidance for prominence and tailored accounting principles.

NAREIT understands that the SEC staff will not object to a presentation of proportional investee amounts, which may include a column of adjustments that would have been made to arrive at the full pro-rata financial statements. For further information, refer to the NAREIT Alert: Reporting Pro-Rata Information dated Sept. 30. Further, NAREIT understands that the SEC staff will not object to including subtotals and totals in the table of adjustments originally included in the Alert.

Currently, NAREIT understands that the SEC staff will also not object to the limited use of other measures and metrics that incorporate pro-rata financial information. Any disclosure of pro-rata financial information should be transparent. Registrants should include disclosure clearly explaining the nature and limits of the pro-rata results, such as:

- Registrants should provide clear disclosure of the relationship to the consolidated and unconsolidated investees and explain how the pro-rata information was derived.
- Registrants should explicitly disclose that they do not control the unconsolidated investees.
- Registrants should clearly explain any limitations of the proportional data. For example, registrants should caution investors that multiplying each of the investees' financial statement line items by the registrant's percentage ownership and adding those amounts to the registrant's totals may not accurately depict the legal and economic implications of holding a non-controlling interest in the investee.

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