



LETTER OF COMMENT NO. 136

April 14, 2009

Mr. Russell Golden  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

**Re: Discussion Paper: Preliminary Views on Financial Statement Presentation**

Dear Mr. Golden:

Taubman Centers, Inc. appreciates the opportunity to comment on the above-referenced Discussion Paper. Taubman Centers, Inc. is a publicly traded real estate investment trust engaged in the ownership, development, acquisition, and operation of regional shopping centers and interests therein. We currently own and/or manage 24 shopping centers in 11 states and are developing retail projects in Macao, China and Incheon, South Korea.

In order to "field test" the objectives and proposals contained in the Discussion Paper, we recast two years of our historical financial statements using the proposed presentations. We have generally limited our comments to those areas and topics arising from our field testing that we suggest require your heightened attention.

We agree that financial statements should:

- Present a cohesive financial picture of an entity's activities and that assets and liabilities should be linked to both the statement of comprehensive income and statement of cash flows
- Disaggregate information in a manner that makes it useful in assessing the amount, timing and uncertainties of future cash flows, and
- Present information in a manner that helps users to assess the entity's ability to meet its financial commitments as they come due and to invest in business opportunities.

In that regard, we believe the objectives of financial statement presentation proposed in the Discussion Paper would generally improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital

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providers. We also agree with the view that a management approach should be used to classify financial statement line items – we further confirm that this approach would produce the most useful view of an entity to users and that this approach outweighs the potential for reduced comparability of financial statements.

However, we believe the following topics need to be addressed or reevaluated in order for these financial statement presentation objectives to be successfully met in practice:

- The ability to present an investor's share of operating results of joint ventures or other equity method investees within the financial statement sections and categories defined in the Discussion Paper,
- The disaggregation of financial statement elements by both function *and* nature on the face of the financial statements,
- The cost and benefits of producing the direct method cash flow statement,
- The meaningfulness of the reconciliation between the statement of cash flows and the statement of comprehensive income,
- The potential implementation timeline.

These issues are discussed further in the following sections.

### **Presentation of Results of Equity Method Investees**

We believe that reporting an investor's share of operating results of joint ventures or other unconsolidated affiliates as a single line as currently required by APB Opinion 18 will greatly limit the usefulness of the statement of comprehensive income for entities that rely on joint venture arrangements as a regular form for operating and financing real estate properties. We commonly utilize joint venture arrangements to fund the development and acquisition of our shopping centers – in 2008, approximately one-third of our EBITDA was generated from equity method investees. The operations of these ventures are viewed by management in the same manner as the operations of consolidated real estate operations. That is, to best understand these ventures, their operating results need to be analyzed separately from any decisions as to how such operations are financed. While the Discussion Paper does not specifically identify this issue, it is very significant to our company and industry.

We believe that the operating results of equity method investees should be allocated to the business and financing classifications. Without such an allocation, the meaningfulness of the



totals for business and financing activities will be greatly diminished. While it may be argued that the presentation of equity method investments is beyond the current scope of this project, we strongly suggest that addressing the presentation of these investments should be considered as critical as dealing with any of the other financial statement line-items that are afforded specific treatment in the Discussion Paper.

### **Disaggregation by Both Function and Nature**

We believe that there are significant cost benefit decisions to be made in connection with disaggregating financial statement line-items by both function and nature. While information by both function and nature may exist between our various accounting systems and subsystems, processes and controls have generally not historically been designed to accumulate and report information by nature. Implementation of such systems, processes, and controls would represent a daunting requirement when considering the significant amount of shared payroll and other corporate expenses found in any real estate company actively engaged in managing, leasing, and developing a large portfolio of investment assets.

We ultimately do not agree that financial statement line-items should be disaggregated by nature on the face of the financial statements. Additionally, besides creating cost benefit concerns, this heightened level of disaggregation may not even be used by senior management to make decisions about resource allocation or to assess performance, considering that information disaggregated both by function and nature is limited today. Therefore, we question whether this level of disaggregation will provide financial statement users with significantly improved decision useful information.

Finally, we also believe that reporting income statement line-items by both function and nature will unnecessarily add significant complexity to the face of the financial statements. In initial passes at recasting our historical financial statements during our field testing, we easily tripled the number of lines required to present certain basic revenues and expenses when disaggregating by function alone; further breaking out line-items by nature will increase that result exponentially. In the end, we believe such an increased level of detail may distract from clearly presenting and understanding an entity's underlying operating performance. We believe that a viable alternative would be to present additional supplemental breakdown of income statement elements by nature in footnote disclosures when considered necessary to meet the objectives of the Discussion Paper.

### **Direct Method Cash Flow Statement**

We have significant concerns about whether the perceived benefits of providing the direct method cash flows will justify the costs, even if such costs primarily represent those of one-time implementation efforts. With respect to the benefits, direct cash flows are not currently available to members of management for purposes of their decision-making.



Therefore, we question whether the direct method of cash flows provides financial statement users with decision useful information. In regards to costs, our accounting systems and subsystems do not currently capture information in a manner that can be extracted to provide direct cash flows, especially when considering the “by function and nature” level of disaggregation contemplated by the Discussion Paper. Presenting direct cash flows (and doing so at a heightened level of detail) would necessitate each receivable, accrual, prepaid, and other similar balance sheet account be broken into dozens of subaccounts that are not currently utilized today and/or are only contained in accounting subsystems. Additionally, we would be required to design, implement, and enforce absolutely consistent processes for setting up all such balance sheet balances, making or receiving payments, and relieving account balances by a wide range of personnel located at a variety of locations, including our headquarters, at each of our shopping centers, and overseas in satellite offices. Ultimately we would incur substantial costs to modify our systems and processes to comply with the proposed direct method cash flow; although we are not currently able to quantify such costs, we suspect they may well exceed the perceived benefits of the direct method cash flow statement.

### **Reconciliation Schedule**

We believe that if reporting a direct cash flow method was to be required, thoughtful management’s discussion and analysis of the changes in elements of the cash flow statement would make the reconciliation schedule proposed in paragraph 4.19 of the Discussion Paper unnecessary. We believe that the content currently proposed to be part of the reconciliation schedule may provide little value to users. We believe that for most line items, the reconciliation may prove to be a redundant mathematical exercise where there will be one reconciling item representing the “accrual” difference between the statement of cash flows and the statement of comprehensive income, and that further information would still be required for users to actually understand the reconciling items. For example, to reconcile cash rentals received from our properties to our rent revenue recognized on an accrual basis, users will have to have available to them and understand (1) changes in accounts receivable relating to rentals, (2) the impact of straight-lining of rent pursuant to FASB Statement No. 13, (3) the amortization of lease incentives against rental income, and (4) the impact of amortization related to lease intangibles arising from a business combination. These four items would be represented by one reconciling item (the “accrual”) on the current reconciliation schedule, clearly inadequate for purposes of providing users an appropriate understanding of each of these reconciling items and reducing the “noise” that is inherent in accrual basis earnings measures.

### **Implementation Timeline**

We are concerned about any implementation deadline (although one is not explicitly contained in the Discussion Paper) that would be targeted to be effective for 2012 year-end



financial statements. We estimate that implementation of the requirements of the Discussion Paper would take our company at least two years to change and test systems, processes, and controls. As many of the system and process changes must be made a transactional level, any implementation project would have to be fully complete prior to the beginning of the first year to be presented. With this in mind, we recommend that a final standard with a scope as all-encompassing as the one found in the Discussion Paper be effective no sooner than three to five years from the date of issuance of the final standard. Additionally, if there is continued movement towards U.S. adoption of International Financial Reporting Standards (IFRS), we would also be concerned that the overlap of the project teams and resources required to implement both the Financial Statement Presentation standard and the IFRS framework would create a significant amount of stress on our reporting capabilities. We suggest that these potential resource conflicts be considered when the implementation timeline for any future standard is being determined.

We thank you for the opportunity to comment on the Boards' preliminary views with respect to this project. Please contact us at (248)258-6800 if you would like to discuss our comments.

Respectfully submitted,

/s/ Esther R. Blum  
Senior Vice President, Controller, and Chief Accounting Officer

/s/ David A. Wolff  
Director, Accounting Standards and Compliance