NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

February 15, 2012

Ms. Susan Cosper
Technical Director
File Reference No. 2011-200
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: Financial Services – Investment Companies (Topic 946) Proposed Accounting Standards Update

Dear Ms. Cosper:

This letter is submitted by the National Association of Real Estate Investment Trusts® (NAREIT) in response to the request for comments from the Financial Accounting Standards Board (FASB or the Board) on the Financial Services – Investment Companies (Topic 946) Proposed Accounting Standards Update (the Proposed Update).

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 own lease and most often operate 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 U.S. Real Estate Index, which covers both Equity REITs and Mortgage REITs. This Index contains 160 companies representing an equity market capitalization of $451 billion at year end. Of these companies, 130 consist of equity REITs representing 90.5% of total U.S. listed REIT equity market capitalization (amounting to $407 billion).[1] The remainder, as of December 31, 2011, were 30 publicly traded mortgage REITs with a combined equity market capitalization of $43 billion.

NAREIT supports the Board's continuing efforts to achieve convergence of U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). However, NAREIT believes that adoption of the Proposed Update would entirely fail to accomplish this objective. Additionally, NAREIT believes the Proposed Update establishes specialized industry accounting which is contrary to a fundamental conclusion of the final report of the Advisory Committee on Improvements to Financial Reporting (CIFR) to the United States Securities and Exchange Commission dated August 1, 2008 that accounting standards should "focus on the nature of the business activity itself, since the same activities, such as lending, may be carried out by companies from different industries."

Also, NAREIT maintains that the Proposed Update is entirely at odds with two recent Board initiatives:

- Eliminating specialized industry accounting in the joint FASB and IASB revenue recognition project; and,

- Efforts to simplify accounting through qualitative approaches to the measurement of impairment for goodwill and other indefinite-lived intangibles.

Retain REIT Scope Exception

For purposes of financial standards, REITs have been historically treated as, and are in fact, operating businesses and thus should not be treated as investment companies in the Proposed Update. Therefore, NAREIT strongly objects to the FASB's decision to remove the explicit scope exception for REITs that exists in Topic 946 Financial Services – Investment Companies today. The REIT scope exception has been included in Investment Companies accounting literature for some time, dating back to when the mutual fund industry's financial reporting was governed by the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for Investment Companies. The scope exception recognizes the operating nature of the REIT business model and underlying activities of REITs as distinctly different from investment companies. This fact has been acknowledged by the FASB and the AICPA repeatedly over the years. For example, the AICPA Statement of Position 07-1 *Clarification of the Scope of the Audit and Accounting Guidance Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies,* paragraph A25 states the following:

> AcSEC observes, however, that REITs typically would not meet the objective of an *investment company* because REITs typically are involved in the day-to-day management of investees in ways that are inconsistent with the activities of an investment company. For example, REITs typically develop and operate real estate.

[1] http://returns.reit.com/reitwatch/rw1201.pdf at page 20.

Additionally, the Emerging Issues Task Force recognized the fact that REITs are operating companies in their paper on EITF Issue No. 09-D, *Application of Topic 946, Financial Services – Investment Companies, by Real Estate Investment Companies.* Paragraph 27 states:

> Working Group members pointed out that some may interpret paragraph 946-10-15-3 to preclude any entity structured as a REIT for tax purposes from being an investment company. However, others interpret the paragraph to mean that those REITs that have other than insignificant non-investment operations (for example, property development or management activities) or otherwise meet the definition of an investment company are not precluded from applying Topic 946. *This view was based on the belief that the intent of the scope exclusion noted in paragraph 23 was that at the time that guidance was written, REITs generally were structured as operating entities and, accordingly, did not meet the criteria to be considered an investment company under the Investment Company Guide* [emphasis added].

There have been no changes in the operating nature of REITs' business operations since the time that the REIT scope exception was first introduced in U.S. GAAP. Therefore, NAREIT and its members do not understand why the FASB would abolish the REIT exception and potentially include REITs within the scope of specialized industry accounting. As a result, NAREIT strongly objects to the removal of the REIT scope exception.

Further, NAREIT questions the FASB's rationale in removing the REIT scope exception, while at the same time automatically scoping in companies that are currently regulated under the Investment Company Act of 1940 (1940 Act) into the Proposed Update regardless of whether those entities meet the definition of an investment company. On one hand, the FASB appears to elevate the importance of form over substance when developing the scope of the Proposed Update:

> BC9. The FASB ultimately decided that an investment company that is regulated under the Investment Company Act of 1940 should be within the scope of Topic 946 regardless of whether that entity meets the proposed investment company definition developed with the IASB. The FASB was concerned that some entities that are required to comply with the SEC's regulatory requirements for investment companies may not meet the proposed U.S. GAAP definition of an investment company. The FASB recognizes that defining an investment company on the basis of U.S. regulatory requirements is not convergent with the IASB's proposal, but this approach would avoid situations in which an entity would be required to present assets and liabilities under two measurement bases because it is considered an investment company for regulatory purposes but not for U.S. GAAP financial reporting purposes.

At the same time, the FASB decided to ignore a well-recognized and well-understood form of investment (*i.e.*, REITs) in order to try to divine substance in determining the scope of the Proposed ASU:

> BC11. The FASB also decided to remove the scope exception in Topic 946 for real estate investment trusts. The FASB was concerned that this scope exception is based on whether an entity has made a designation to be treated as a real estate investment trust under the Internal Revenue Service (IRS) tax code. Because this project is a joint project with the IASB, and income tax requirements are different for each tax jurisdiction, the FASB concluded that an entity's election as a real estate investment trust should not affect whether the entity is an investment company.

If the FASB believes that it is important to include companies in the scope of the Proposed Update simply because they are regulated under the 1940 Act, NAREIT suggests that the FASB exclude "mortgages and other interests in real estate", which are statutorily excluded from the 1940 Act. REITs generally are not considered investment companies for legislative purposes in the 1940 Act through the exclusion found in Section 3(c)5(C). While this legislation does not govern financial reporting, the 1940 Act clearly distinguishes the business model and activities of REITs from investment companies:

> Although the companies enumerated in [Section 3(c)(5)(C)] have portfolios of securities in the form of . . . mortgages and other liens on and interests in real estate, they are excluded from the [1940 Act's] coverage *because they do not come within the generally understood concept of a conventional investment company investing in stocks and bonds of corporate issuers*[2][3] [emphasis added].

NAREIT observes that the 1940 Act recognizes the operating nature of the underlying activities of companies, and suggests that the FASB utilize a similar rationale when developing accounting standards.

NAREIT respectfully suggests that the FASB adopt our recommendations as detailed further below with respect to the appropriate way forward for mortgage REITs (*i.e.*, retain current U.S. GAAP accounting) and for equity REITs (*i.e.*, converge to IAS 40 with modifications).

Mortgage REIT Perspective

Today, mortgage REITs perform an integral role in the real estate capital markets by providing financing and liquidity through funding mortgage and mortgage related loans for residential and commercial borrowers, and also through originating mortgages and mortgage-related loans. Residential mortgage REITs primarily invest in residential mortgage debt and earn a spread between the yield on their assets and the cost of their liabilities, while commercial mortgage REITs originate and invest in commercial mortgage debt. The importance of publicly traded

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[2] Investment Company Act Amendments of 1970, House Report 91-1382 (Aug. 7, 1970), at 17.

[3] On August 31, 2011, the Securities and Exchange Commission (the Commission) issued Concept Release No. IC-29778 (the Concept Release), which addresses interpretive issues surrounding the assets that qualify for use of this exclusion ("Qualifying Interests"). In the Concept Release, the SEC provides a history that illustrates why mortgage REITs are different from investment companies. The SEC is in the process of evaluating the feedback that the Commission received in response to its Concept Release at this time.

mortgage REITs to the housing and real estate credit markets has increased in recent years, and will only grow as the housing market and the real estate economy continue to evolve. Further, when the Federal Reserve moves to unwind its nontraditional position in mortgages and when the government-sponsored enterprises (GSEs) move to reduce or eliminate their ownership of mortgages, market observers expect publicly traded mortgage REITs to become an increasingly important component of housing-related finance.

Over time, investors have been well served by publicly traded mortgage REITs, typically earning total returns built on dividends and the potential for capital appreciation. Moreover, investor returns on mortgage REITs generally, as measured by the FTSE NAREIT Mortgage REIT Index, have been competitive with investor returns in broad stock indexes. Given the track record and these developments, actors in the housing market and the commercial real estate economy in particular, and in the overall economy in general, look to the publicly traded mortgage REIT industry and its business model to grow and innovate.

NAREIT's Mortgage REIT Council Task Force on Investment Companies reviewed the issues and questions raised in the Proposed Update. The Council is comprised of both residential and commercial mortgage REITs, and the mission of the Council is to advise NAREIT's leadership on matters of interest to mortgage REITs, in part through the input of the Council's Residential and Commercial Mortgage REIT Working Groups.

Implications of Proposed Update on the Mortgage REIT Industry

The Proposed Update could represent a fundamental change to the financial reporting and business operations of mortgage REITs. Through the removal of the explicit REIT exception in the Proposed Update, mortgage REITs would be required to evaluate whether they meet the definition of an investment company, and thus be potentially subject to the financial reporting requirements included in the Proposed Update. As explained further in this letter, NAREIT does not believe that most mortgage REITs would qualify as investment companies under the Proposed Update. However, NAREIT is concerned that the removal of explicit REIT exception might lead some to automatically infer that the FASB has concluded that all or most mortgage REITs are investment companies and that the change could lead to investor confusion.

If the FASB continues to pursue the Proposed Update as currently drafted, mortgage REITs could be required to report in a similar fashion as mutual funds, when in reality their underlying transactions involving mortgage loan origination and investing in mortgage-backed securities are more akin to financial institutions (*e.g.*, banks). NAREIT is concerned about the following potential unintended consequences if mortgage REITs are forced to apply the Proposed Update:

- Investors would receive audited information under U.S. GAAP that would not be useful in evaluating the financial performance of mortgage REITs. As a result, investors could resort to using the financial reporting currently employed today, which would be non-GAAP and un-audited financial information.

- Investors could be misled into viewing the risks and rewards of owning shares in a mutual fund as akin to owning shares of a mortgage REIT, despite the significant differences in business models.

NAREIT's Mortgage REIT Recommendations

NAREIT recommends that the FASB take the following action with respect to the Proposed Update:

- ***Preserve the REIT Scope Exception.***

If the FASB chooses not to follow our recommendation to preserve the REIT scope exception, NAREIT recommends that the Board make the following amendments to the Proposed Update:

- ***Retain the current accounting model for available-for-sale securities applied by mortgage REITs; and,***

- ***Add an illustrative example that addresses mortgage REITs.***

Irrespective of whether the FASB chooses to follow our recommendations above on the Proposed Update, NAREIT recommends that the Board make the following broader amendments to the Proposed Update:

- ***Adopt the IASB's Investment Entities definition of "fair value management"; and,***

- ***Add a seventh scope criterion on Transactions Priced at Net Asset Value for the Proposed Update.***

NAREIT believes by following these recommendations, the FASB will address our concerns on ambiguous terminology, further differentiate mortgage REITs from investment companies, and continue to provide a consistent and coherent accounting framework that is based on the economics of the underlying transactions of mortgage REITS and similar financial institutions such as banks.

These recommendations and other considerations are discussed in greater detail below.

Retain the current accounting model for available-for-sale securities applied by mortgage REITs

NAREIT believes that the current accounting model is preferable to the accounting model in the Proposed Update. In our view, the current accounting model appropriately captures the underlying activities of mortgage REITs that focus on mortgage loan origination and investment in mortgage-backed securities. Additionally, the current accounting model provides users of financial statements with the information they need to analyze our companies. In the time since the FASB issued the Proposed Update, NAREIT has had a dialogue with industry analysts that follow mortgage REITs to understand their views of the technical requirements and financial reporting model as delineated in the Proposed Update. A common response that the users have stated is that they do not believe that the financial reporting model in the Proposed Update appropriately captures the operating nature of mortgage REITs. They believe that there is a clear distinction between the passive nature of a mutual fund versus the operating nature of a mortgage REIT. They also question the usefulness of recognizing changes in value in net income, when most mortgage REITs do not actively trade their portfolio of investments. Finally, they question whether a detailed schedule of investments where a mortgage REIT would list each individual investment in a security and/or mortgage loan as useful information.

Currently, mortgage REITs account for their investments in mortgage-backed securities in accordance with FASB Accounting Standards Codification Topic 320, *Investments – Debt and Equity Securities* (formerly, Financial Accounting Standard No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). When mortgage REITs classify their investments in securities as available-for-sale (AFS), investments are measured at fair value on the balance sheet, with changes in value recognized in other comprehensive income (OCI). The following excerpt from American Capital Agency's 2010 Annual Report illustrates this accounting designation:

> Investments in Agency Securities
>
> ASC Topic 320, Investments—Debt and Equity Securities ("ASC 320"), requires that at the time of purchase, we designate a security as held-to-maturity, available-for-sale or trading depending on our ability and intent to hold such security to maturity. Securities classified as trading and available-for-sale are reported at fair value, while securities classified as held-to-maturity are reported at amortized cost. We may, from time to time, sell any of our agency securities as part of our overall management of our investment portfolio. Accordingly, we typically designate our agency securities as available-for-sale. All securities classified as available-for-sale are reported at fair value, with unrealized gains and losses reported in other comprehensive income ("OCI"), a component of stockholders' equity. Upon the sale of a security, we determine the cost of the security and the amount of unrealized gains or losses to reclassify out of accumulated OCI into earnings based on the specific identification method[4].

Financial institutions are provided with a similar accounting designation, provided that they do not actively trade the security or intend to hold the security to maturity. However, under the Proposed Update, if mortgage REITs are considered to be in scope, investments in mortgage-backed securities would be recognized at fair value, *with changes in value recognized in earnings*. Financial institutions with similar activities, on the other hand, would continue to account for their investments as available for sale at fair value, with changes in value recognized in OCI.

[4] American Capital Agency 2010 Annual Report - http://ir.agnc.com/phoenix.zhtml?c=219916&p=irol-irhome

Additionally, the Proposed Update requires investment companies to provide a detailed Schedule of Investments. Once again, if mortgage REITs are considered to be within the scope of the Proposed Update, the FASB would be requiring mortgage REITs to report as investment companies with a requirement to present a detailed listing of each underlying investment in its portfolio, which would include securities and mortgage loans. However, financial institutions, such as banks, with similar activities as mortgage REITs that have a portfolio of mortgage debt are *not* required to provide a detailed listing of each mortgage loan.

Add an illustrative example that addresses mortgage REITs

As further discussed later in this letter, NAREIT does not believe that the FASB has provided a sufficient definition of "fair value management." In the event that the FASB follows NAREIT's recommendation to converge with the IASB's definition of fair value management from the *Investment Entities* exposure draft, NAREIT does not believe that mortgage REITs would meet this criterion to be considered an investment company. Therefore, NAREIT recommends that the FASB include an illustrative example that explains why mortgage REITs are outside the scope of the Proposed Update.

Residential and commercial mortgage REITs are *not* managed on a *fair value* basis. Rather, both residential and commercial mortgage REITs manage their investments on a *yield* basis. The primary objective of a residential mortgage REIT is to generate income for distributions to shareholders from: a) the spread between interest income on the interest income earned on mortgage-backed securities and costs of borrowing to finance the acquisition of mortgage-backed securities; and, b) dividends received from taxable REIT subsidiaries. The primary objective of commercial mortgage REITs is to generate net income for distribution to investors from: a) the spread between the yields on its investments and loans and the cost of borrowing to finance their acquisition; and, b) only secondarily, capital appreciation of the loans and securities held. Thus, both forms of mortgage REITs are managed primarily on a *yield basis* with an emphasis on the generation of long-term *cash flow*.

Mortgage REITs do not focus primarily on fair value because the business model of a REIT does not provide them with the ability to engage in active trading of their portfolio of investments like an investment company would. This fact is best evidenced by the following excerpt from Annaly's 2010 Annual Report:

> We generally intend to hold mortgage-backed securities for extended periods. In addition, the REIT provisions of the Internal Revenue Code limit in certain respects our ability to sell mortgage-backed securities. We may decide however to sell assets from time to time, for a number of reasons, including our desire to dispose of an asset as to which credit risk concerns have arisen, to reduce interest rate risk, to substitute one type of mortgage-backed security for another, to improve yield or to maintain compliance with the 55% requirement of Section 3(c)(5)(C) of the Investment Company Act, or generally to re-structure the balance sheet when we deem advisable. Our board of directors has not

> adopted any policy that would restrict management's authority to determine the timing of sales or the selection of mortgage-backed securities to be sold[5].

NAREIT believes that this excerpt further supports the recommendation of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission dated August 1, 2008 to account for the activities of the underlying transactions, as opposed to a requirement that mandates entity-based specialized accounting and financial reporting.

The fact that mortgage REITs manage on a yield basis with a focus on *long-term cash flow generation* is also illustrated by the following excerpt from Hatteras Financial Corp.'s 2010 Annual Report:

> Our manager's approach to managing our portfolio is to take a longer term view of assets and liabilities; accordingly, *our periodic earnings and mark-to-market valuations at the end of a period will not significantly influence our strategy of providing stable cash distributions to shareholders over the long term.* Our manager has invested and seeks to invest in agency securities that it believes are likely to generate attractive risk-adjusted returns on capital invested, after considering (1) the amount and nature of anticipated cash flows from the asset, (2) our ability to borrow against the asset, (3) the capital requirements resulting from the purchase and financing of the asset, and (4) the costs of financing, hedging, and managing the asset[6] [emphasis added].

Adopt the IASB's Investment Entities definition of "fair value management"

NAREIT observes that the Proposed Update includes ambiguous terminology that is not sufficiently defined. The following criterion is not defined in the standard, which could result in unintended consequences by inappropriately capturing companies within the scope of the Proposed Update:

> Fair value management – Substantially all of the investment company's investments are managed, and their performance evaluated, on a fair value basis.

The FASB did not adequately define what is intended by this criterion. As a result of this vagueness, the Council believes that the FASB has created *implicit optionality* for companies to be considered within or outside of the Proposed Update. This result would be in direct conflict with the following recommendation made by the Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission[7]:

> Recommendation 1.7: U.S. GAAP should be based on a presumption that formally promulgated alternative accounting policies should not exist. As such, the SEC should

[5] http://investor.annaly.com/Cache/11027454.PDF?D=&o=PDF&iid=113558&osid=9&Y=&T=&fid=11027454
[6] http://www.snl.com/Cache/1001157952.PDF?D=&O=PDF&IID=4200126&Y=&T=&FID=1001157952
[7] http://www.sec.gov/about/offices/oca/acifr/acifr-finalreport.pdf

> recommend that any new projects undertaken jointly or separately by the FASB not provide additional optionality, except in rare circumstances. Any new projects should also include the elimination of existing alternative accounting policies in relevant areas as a specific objective of those projects, except in rare circumstances.

Therefore, NAREIT suggests that the FASB consider converging with the definition of fair value management used by the International Accounting Standards Board (IASB) in its *Investment Entities* exposure draft.

The following excerpt is from the *Investment Entities* exposure draft:

> B17. All controlled investments of an investment entity must be managed, and their performance evaluated, internally and externally, on a fair value basis. This evaluation is based on how the investment entity manages and evaluates performance, rather than on the nature of its investments. The entity's activities must demonstrate that the fair value is the *primary measurement attribute used to make a decision about the financial performance of those assets*[8] [emphasis added].

By converging with the IASB's definition of "fair value management," the FASB would reduce ambiguity, ensure consistency, and eradicate the *implicit optionality* that the Board created in the Proposed Update.

Add a seventh scope criterion on Transactions Priced at Net Asset Value for the Proposed Update

Due to the ambiguity through the use of similar terminology (*e.g.*, investment companies) that the FASB has used in the Proposed Update and regulators have used elsewhere for non-financial standards legislative purposes, NAREIT understands that some could question whether a mortgage REIT should be considered within the scope of the Proposed Update. As a result, the Council recommends that the FASB add a seventh criterion to the scope of the Proposed Update**:**

> Transactions priced at net asset value (NAV) – The entity sells shares or units based on the entity's current NAV as opposed to a share price on a quoted market exchange.

By adding a seventh criterion, the FASB would further distinguish mortgage REITs and other specialized financial companies from investment companies. Additionally, by continuing to use the word "or" in paragraph 946-10-15-2 of the Proposed Update, other investment vehicles that currently report as investment companies (*e.g.*, closed-end mutual funds) would continue to be within the scope of the Proposed Update:

> An investment company as discussed in this Topic is an entity that is regulated under the Investment Company Act of 1940 *or* is an entity that meets all of the following criteria [emphasis added]…

[8] http://www.ifrs.org/NR/rdonlyres/E8EF4421-3006-4E31-AB0C-C86A27CD2EE9/0/EDInvestmentEntities.pdf

Equity REIT Perspective

In NAREIT's view, with respect to Equity REITs, the Board does not clearly distinguish between an operating business and an investment company and may force Equity REITs into accounting and financial reporting tailored for investment companies through the similar proposed scope criteria for defining Investment Property Entities and Investment Companies.

The goal of Equity REITs is to maximize total return to shareholders from real estate assets. This return is represented by operating cash flows and appreciation in the investment property's value. Common characteristics of these entities include developing, acquiring, leasing, financing, intensely managing and opportunistically disposing of investment property. Intensively managing investment property includes:

- Renovating properties to maintain or enhance their tenant and customer appeal;
- Re-merchandising retail space to attract shoppers to the property;
- Re-leasing space to keep pace with market rents;
- Providing services to maintain a property's physical quality; and,
- Developing relationships with national and global tenants.

As expressed in far more detail in NAREIT's comment letter on the Real Estate – Investment Property Entities (Topic 973) Proposed Accounting Standards Update, NAREIT is concerned that the Board's entity-based approach would not include all of the companies that own and operate investment property. In this scenario, those companies that are outside the scope of the Investment Property Entities guidance would be required to evaluate whether they meet the definition of an investment company in the Proposed Update. By preserving the REIT scope exception, the FASB would ensure that Equity REITs do not prepare financial statements in a similar fashion as mutual funds and investment companies. Users of financial statements would be better served when the FASB develops a consistent and coherent framework for investment property that is activity-based. In our view, such an approach should be based the approach taken U.K. Standard on Investment Property from 1981 (*i.e.*, Statement of Standard Accounting Practice 19 *Accounting for Investment Properties)* that preceded International Accounting Standard 40 *Investment Property*, and has stood the test of time.

A Final Point: Converge the Terminology in the Proposed Update with the IASB's Investment Entities Proposal

As a final point, NAREIT urges the FASB to converge the terminology and the naming convention of Proposed Update with the IASB's *Investment Entities* Proposal. The use of different terminology by the FASB and the IASB for what was intended to be a joint convergence project results in confusion and complexity to preparers, users, and regulators alike. This would further the case for convergence with the International Financial Reporting Standards

(IFRS), as the IASB has used the words *investment entities* in their *Investment Entities* Proposal.[9] Additionally, NAREIT has observed that both the FASB and the Securities and Exchange Commission have used the words "Investment Companies"; however, the words are defined differently in U.S. Generally Accepted Accounting Principles (U.S. GAAP) and for securities regulatory purposes in the 1940 Act. By using the *investment companies* terminology for both accounting and legislative purposes interchangeably, NAREIT is concerned that there would be confusion by some regulators or investors because of the same terminology being used. The FASB did not use the SEC's definition of an investment company when it developed the scope criteria of the Proposed Update; therefore, we question why the Board would use the SEC's terminology for purposes of the Proposed Update. Thus, we *urge* the FASB to replace references to *investment companies* in the Proposed Update with *investment entities* in order to converge with IFRS and to draw a strong distinction between *investment companies* for legislative purposes and *investment entities* for accounting purposes.

We thank the FASB for the opportunity to comment on these important proposals and would appreciate an opportunity to share our views on the Proposed Update directly with the Board. If you would like to discuss our views in greater detail, please contact George Yungmann, NAREIT's Senior Vice President, Financial Standards, at gyungmann@nareit.com or 1-202-739-9432, or Christopher Drula, NAREIT's Senior Director, Financial Standards, at cdrula@nareit.com or 1-202-739-9442.

Respectfully submitted,

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President and CEO

George L. Yungmann
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[9] We note that partnerships and business trusts owning mortgages could be covered by the Proposed Update and that investors and the public in general distinguish between companies (usually in corporate form) and other forms of investment. This is another reason why the IASB terminology – investment entities- is preferable.