NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

August 16, 2013

Ms. Susan Cosper
Technical Director
File Reference No. 2013-230
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116
director@fasb.org

Delivered Electronically

Re: File Reference No. 2013-230, *Presentation of Financial Statements, Reporting Discontinued Operations*

Dear Ms. Cosper:

This letter is submitted by the National Association of Real Estate Investment Trusts® (NAREIT) in response to the Proposed Accounting Standards Update (Proposed ASU or the Proposal) from the Financial Accounting Standards Board (FASB or the Board) on *Reporting Discontinued Operations*.

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 businesses throughout the world that own, operate, and finance income-producing real estate, as well as those firms and individuals who advise, study, and service those businesses.

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 189 companies representing an equity market capitalization of $670.4 billion at June 30, 2013[1]. Of these companies,

[1] http://returns.reit.com/reitwatch/rw1307.pdf at page 21.

150 were Equity REITs representing 90.7% of total U.S. listed REIT equity market capitalization (amounting to $608.3 billion). The remainder, as of June 30, 2013, was 39 publicly traded Mortgage REITs with a combined equity market capitalization of $62.1 billion.

This letter has been developed by a task force of NAREIT members, including members of NAREIT's Best Financial Practices Council. Members of the task force include financial executives of both Equity and Mortgage REITs, representatives of major accounting firms and institutional investors and stock research analysts. The financial executives representing Equity REITs are involved in all property sectors of the REIT industry, including regional malls, shopping centers, multi-family residential, office, health care, lodging/resorts, and industrial.

NAREIT and its global partners represented in the global Real Estate Equity Securitization Alliance (REESA) have been very active in the process of the FASB and International Accounting Standards Board (IASB) toward developing a high quality converged standard for reporting discontinued operations. REESA members include the following real estate organizations:

- Asian Public Real Estate Association (APREA)
- Association for Real Estate Securitization in Japan (ARES)
- British Property Federation (BPF)
- European Public Real Estate Association (EPRA)
- National Association of Real Estate Investment Trusts in the United States (NAREIT®)
- Property Council of Australia (PCA)
- Real Property Association of Canada (REALpac)

REESA members have met with the Boards and staff on several occasions, submitted comment letters on both of the initial exposure drafts issued by the FASB and IASB and provided support for the Boards' deliberations. Our previous letter regarding discontinued operations[2], dated November 11, 2011, provides details of our interaction with the Boards since the project's inception.

Comments and recommendations on the Proposal

Definition of a discontinued operation

NAREIT agrees with the Board's proposed definition of a discontinued operation. We have previously expressed our concern to the Board that requiring the disposal of a single investment property or a group of properties that represents only a portion of a line of business as a discontinued operation provides misleading information to financial statement users. We have emphasized that, in our view, a discontinued operation should represent a change in the strategic direction of the company. Therefore, we acknowledge and appreciate the Board's positive response, as embedded in the Proposal, to our previously expressed concerns.

[2] http://www.reit.com/Portals/0/PDF/Discontinued-Operations-11-01-11.pdf.

In addition, we welcome the Board's decision to ultimately converge the reporting implications of its definition of a discontinued operation with the definition set forth in International Financial Reporting Standard 5, *Non-current Assets Held for Sale and Discontinued Operations.*

Application of the standard to dispositions of equity method investments

Equity method investments are common in the real estate industry. Joint ventures are used regularly to finance significant acquisitions, to initiate investment in a new sector of our industry and to expand to a new market – offshore markets in particular. Therefore, we support the Board's conclusion and agree that applying the definition of a discontinued operation to equity method investments would provide decision useful information to financial statement users. At the same time, we believe the ASU should make it very clear that the definition of a discontinued equity method investment would mirror the definition of a discontinued consolidated operation. That is, the disposal of an equity method investment would only be considered to be a discontinued operation if the *investment* represents a separate major line of business or a separate major geographical area of operation.

While we support the extension of discontinued operations reporting to equity method investments, we strongly urge the Board to develop specific disclosures for these disposals that would provide relevant information that focus on the one-line income and investment amounts reported on the income statement and balance sheet. In other words, the disclosures required for dispositions of equity-method investments should *not* require information regarding the financial statement elements of the investee. The disclosures of revenues, expenses, assets and liabilities called for with respect to discontinued operations generally are not meaningful to financial statement users as they analyze the impacts of dispositions of equity method investments. In addition, non-controlling joint venture investors may not be able to obtain the granular financial information required for disclosures with respect to dispositions of consolidated components on a timely basis. The disclosures that we envision would be consistent with the proposed requirements of paragraphs 205-20-50-1 and 205-20-50-1A/a – *all on an equity or net asset basis*. NAREIT representatives would be pleased to work with the Board's staff in developing an illustration of meaningful disclosures related to dispositions of equity method investments that meet the definition of a discontinued operation.

Disclosures

While we generally agree with the disclosure requirements indicated in the Proposed ASU, we strongly urge the Board to limit the disclosures with respect to the disposition of: equity method investments (see discussion above).

Transition

Because NAREIT generally believes that retrospective application of new accounting standards is most useful to financial statement users, we believe that preparers should have the option to apply the Proposed ASU retrospectively. While this may require a significant one-time effort, it would provide comparable financial results for all periods presented and, therefore, would enhance the usefulness of the information presented during transition. Therefore, we recommend that the Board *permit* retrospective application of the Proposed ASU.

In addition, we strongly support the Board's conclusion to permit early adoption of the proposed ASU.

We thank the FASB for the opportunity to comment on the Proposal. If you would like to discuss our views and recommendations 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 Vice President, Financial Standards, at cdrula@nareit.com or 1-202-739-9442.

Respectfully submitted,

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Sr. Vice President, Financial Standards

Christopher T. Drula
Vice President, Financial Standards

cc: Mr. Paul Beswick, Chief Accountant, Securities and Exchange Commission, Office of the Chief Accountant