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**NATIONAL ASSOCIATION OF  
REAL ESTATE INVESTMENT TRUSTS®**

September 25, 2012

Ms. Susan Cosper  
Technical Director  
File Reference No. 2012-200  
Financial Accounting Standards Board  
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**Delivered Electronically**

**Re: File Reference No. 2012-200, Financial Instruments (Topic 825) –  
Disclosures about Liquidity Risk and Interest Rate Risk 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 Instruments (Topic 825) – Disclosures about Liquidity Risk and Interest Rate Risk Proposed Accounting Standards Update (the Proposed Update or the Proposal).

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



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an equity market capitalization of \$450 billion at 2011 year end. Of these companies, 130 consist of equity REITs representing 90.2% of total U.S. listed REIT equity market capitalization (amounting to \$407 billion)<sup>1</sup>. The remainder, as of December 31, 2011, were 30 publicly traded mortgage REITs with a combined equity market capitalization of \$43 billion.

**NAREIT's Recommendation:**

- **Defer the Proposed Update until the *Disclosure Framework* Project is complete;**
- **Re-evaluate the consequences of including forward-looking information within the financial statements; and**
- **Eliminate redundancies with SEC disclosure rules.**

NAREIT supports the Board's goal to provide users of financial information with more transparency about entity-level exposures to liquidity and interest rate risk. The Proposed Update would require entities to prepare extensive tabular disclosures both annually and quarterly, including proposed requirements that approximate existing disclosures pursuant to Securities and Exchange Commission (SEC) rules. However, NAREIT takes issue with the Proposed Update, and does not support its issuance as a final standard at this time.

NAREIT has the following serious concerns with the Proposed Update:

- The Proposed Update would compete directly with the FASB's *Disclosure Framework* Project;
- The Proposed Update would create potentially redundant disclosure requirements with both existing and proposed SEC disclosure rules;
- The Proposed Update would create a new measurement approach for disclosure of cash flow obligations;
- The Proposed Update would require disclosure of prospective financial analysis information in the financial statements; and,
- The Proposed Update would require the development of new systems for many companies meeting the definition of a financial institution.

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<sup>1</sup> <http://returns.reit.com/reitwatch/rw1201.pdf> at page 20.



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### **The Proposed Update would compete directly with the FASB's *Disclosure Framework* Project**

NAREIT questions the FASB's timing in issuing the Proposed Update for public comment when the FASB has a concurrent Invitation to Comment: *Disclosure Framework* (the Disclosure Framework) that may impact the Proposed Update at a later date. NAREIT understands that:

The objective and primary focus of this project is to improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of each entity's financial statements. Although reducing the volume of notes to the financial statements is not the primary focus, the Board hopes that **a sharper focus on important information will result in reduced volume in most cases<sup>2</sup> [emphasis added]**.

In Chapter 2 of the *Disclosure Framework* Project, the FASB states that:

**The practice of establishing a single one-size-fits-all package of information often leads to default decisions to provide the entire package even if some of it is unnecessary<sup>3</sup> [emphasis added]**.

NAREIT shares the FASB concern expressed in the *Disclosure Framework* when evaluating the disclosure requirements in the Proposed Update. Therefore, NAREIT believes that the Proposed Update should be deferred and revisited after the FASB completes its work on the *Disclosure Framework* Project. If the Board does proceed, we suggest a much less ambitious proposal.

### **The Proposed Update would create potentially redundant disclosure requirements with both existing and proposed SEC disclosure rules**

Existing SEC disclosure rules require companies to provide disclosures surrounding contractual obligations as well as certain interest rate risk information for financial institutions on a quarterly and annual basis in Management's Discussion and Analysis (MD&A). Additionally, the SEC has proposed enhanced disclosures about liquidity and funding for short term borrowings in MD&A in Proposed Rule – Short-Term Borrowings – File No. S7-22-10 (the SEC Proposal). The SEC Proposal would require registrants to disclose:

- The amount in each specified category of short-term borrowings at the end of the reporting period and the weighted average interest rate on those borrowings;

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<http://www.fasb.org/cs/BlobServer?blobkey=id&blobwhere=1175824166287&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs> at page 1.

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<http://www.fasb.org/cs/BlobServer?blobkey=id&blobwhere=1175824166287&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs> at page 16.



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- The average amount in each specified category of short-term borrowings for the reporting period and the weighted average interest rate on those borrowings;
- For registrants meeting the proposed definition of “financial company,” the maximum daily amount of each specified category of short-term borrowings during the reporting period; and,
- For all other registrants, the maximum month end amount of each specified category of short-term borrowing during the reporting period<sup>4</sup>.

The Proposed Update would increase the frequency of the disclosures which are similar to the SEC’s MD&A disclosures from an annual basis to a quarterly basis for public companies. Because the disclosure requirements in the Proposed Update are somewhat incremental to and somewhat different from existing and proposed SEC disclosure requirements, public companies would be forced to comply with both FASB and SEC disclosure requirements. NAREIT believes that the costs of establishing the Sarbanes-Oxley Section 404 internal control infrastructure to collect the data and increased fees for audit firms to review and audit the data would outweigh the potential benefit, if any, of the proposed disclosures. In NAREIT’s view, redundancy in disclosure requirements should be *eliminated* as opposed to *extrapolated*.

### **The Proposed Update would create a new measurement approach for disclosing cash flow obligations**

While SEC rules require the *contractual maturity* of known obligations, aggregated by type of obligation, to be disclosed, the Proposed Update would require the *expected maturity* of contractual cash flows related to financial liabilities and off-balance sheet obligations to be disclosed. NAREIT questions why the Board would introduce a new *expected* measurement basis that is subjective in nature into financial reporting. Further, NAREIT questions how auditors would be able to opine on such a measure. In NAREIT’s view, the measurement basis for financial obligations should be synonymous with existing SEC disclosure requirements (*i.e.*, a contractual basis).

### **The Proposed Update would require disclosure of prospective financial analysis information within the financial statements**

On the surface, it appears that the types of disclosure requirements that the Proposed Update would require are *prospective* in nature (*e.g.*, expected maturities) and akin to financial analysis (*e.g.*, interest rate sensitivity information) as opposed to financial reporting. Information typically included within the financial statements is *historical*, while *forward-looking* information is included in MD&A. Further, NAREIT questions whether audit firms would be able to render audit reports on financial statements that include this information. NAREIT strongly believes that several of the disclosure requirements contemplated in the Proposed

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<sup>4</sup> <http://www.sec.gov/rules/proposed/2010/33-9143.pdf> at pages 15-16.



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Update would be best suited in MD&A as opposed to the notes to the audited financial statements.

**The Proposed Update would require the development of new systems for many companies meeting the definition of a financial institution**

The Proposed Update would require companies that meet the definition of a financial institution to disclose, among other things, an interest rate sensitivity analysis. This analysis would disclose the impact of specified hypothetical and instantaneous changes in interest rates on net income and shareholders' equity. NAREIT questions whether companies meeting the definition of a financial institution have the required systems in place to comply with the disclosure requirements (e.g., when yield curves hypothetically flatten or steepen).

**Other areas of concern**

Irrespective of whether the Board follows NAREIT's recommendation to delay the Proposed Update until the *Disclosure Framework* Project is complete, NAREIT recommends that the FASB provide additional implementation guidance in the Proposed Update.

*Liquidity Gap Maturity Analysis for a Bank*

On page 22 of the Proposed Update, the FASB includes implementation guidance for the Liquidity GAP Maturity Analysis for a Bank. NAREIT questions how the disclosure requirements included in paragraph 825-10-55-5Ae should be applied to derivatives. It is unclear how a company could comply with the disclosure requirement for derivatives when expected maturities do not necessarily correspond to the timing of expected cash flows. We simply are not sure what information is being requested. Therefore, NAREIT believes that additional examples or implementation guidance is necessary.

*The Expected Cash Flow Obligations Table*

On page 27 of the Proposed Update, the FASB includes an illustrative example of the Expected Cash Flow Obligations table. NAREIT notes that the table includes a category for "Commitments." NAREIT observes that this category could be construed as being very broad. For example, would asset retirements obligations, financial guarantees, construction contracts, purchase orders, tax uncertainties, or take-or-pay contracts meet the definition of a commitment to be included in this category? NAREIT recommends that the FASB provide a reasoned definition so that consistency among the preparer community can be assured. We note the SEC has faced similar questions with its MD&A requirement.

*Available Liquid Funds Table*

On page 29 of the Proposed Update, the FASB includes an illustrative example of the Available Liquid Funds Table. NAREIT understands that this table would require companies to disclose available liquid funds, which would include unencumbered cash and high-quality liquid assets as



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well as the entities' borrowing availability. NAREIT questions what would be the definition of a high-quality liquid asset. Would this include actively traded common stock, debt securities or shorter term securities? Should credit ratings play a factor in making this determination? NAREIT recommends that the FASB provide a definition with examples for what the Board considers to be "high quality liquid assets."

*Interest Rate Sensitivity Table*

On page 37 of the Proposed Update, the FASB includes an illustrative example of the Interest Rate Sensitivity Table. NAREIT understands that this table would require companies to disclose the impact of specified hypothetical and instantaneous changes in interest rates on net income and shareholders' equity. NAREIT observes that the table does not appear to specify the period over which the changes in interest rates could impact net income and shareholders' equity. Therefore, NAREIT believes that additional implementation guidance is necessary.

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We thank the FASB for the opportunity to comment on the Proposed Update. 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](mailto:gyungmann@nareit.com) or 1-202-739-9432, or Christopher Drula, NAREIT's Senior Director, Financial Standards, at [cdrula@nareit.com](mailto:cdrula@nareit.com) or 1-202-739-9442.

Respectfully submitted,



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