NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

June 27, 2014

Chairman Russell Golden
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Chairman Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Subject: Lease Accounting Project, Lessee Accounting

Dear Sirs:

The National Association of Real Estate Investment Trusts (NAREIT®) is submitting this unsolicited comment letter to provide the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB, and collectively, the Boards) its views on the relative financial reporting impacts of accounting for Type A and Type B leases. We recognize that there are a number of constituents that believe that the income statement impact of these two approaches to accounting for leases results in only minimal differences in charges to net income of lessees. We do not agree with this assessment and wish to provide the Boards our views with respect to broader considerations regarding the differences between Type A and Type B lease accounting and financial reporting. These considerations include conceptual differences between lease types and the usefulness to investors and other financial statement users of reported information.

Based on these broader considerations, as well as the quantitative differences between the proposed Type A and Type B accounting, NAREIT agrees with the FASB's view that a dual approach to accounting for leases is necessary in order to provide investors and other financial statement users with the most relevant information with respect to leases.

We support the Boards' decision to continue the reconsideration of accounting for leases, and we agree that lessees should reflect an asset and a liability for substantially all leases. We also continue to support the global convergence of a high quality set of financial reporting standards.

Conceptual Considerations

We agree with the FASB's decision to adopt Type B accounting for leases that do not transfer control over the asset to the lessee and that the criteria in International

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Accounting Standard (IAS) 17 *Leases* should be used in making that distinction. Because IAS 17 is well understood by financial statement preparers that currently report under IFRS, as well as auditors and regulators, we do not believe the dual model approach would increase complexity in applying the standard. Those leases that transfer control over substantially all of the future economic benefits of an asset to the lessee would be classified as a Type A lease and accounted for effectively as a purchase. Leases that do not transfer substantially all of the future economic benefits of the leased asset would be accounted for as Type B leases.

We also believe that the IASB's reference to the lessee model as a "single model" is a misnomer. The IASB has previously agreed to a scope exception for "short term" leases, as well as a practicability exception for "small ticket" leases. In our view, this amounts to a lessee accounting model that has three alternatives. In essence, the IASB is trading existing IFRS (*i.e.*, finance leases and operating leases) for a new model that will now have three types of leases: finance-type leases (*i.e.*, Type A leases), "short term" leases, and "small ticket" leases. We fail to see the simplification that the IASB's current decisions would provide over existing IFRS.

For Type B leases, there is clearly a linkage between the rights to use the asset and the lessee's obligation to make payments under the lease. Considering this linkage, we believe that the lessee should allocate the total cost of the lease over the term of the lease. We believe that the Type B accounting approach adopted by the FASB recognizes the linkage between the rights to use the asset and the lessee's obligation to make payments under the lease and more appropriately accounts for the economic differences between arrangements that simply provide a right to use an asset and those that are in-substance purchases of assets.

Quantitative Considerations

As indicated above, we understand that certain constituents are of the view that the income statement impacts of the two approaches to accounting for leases results in only minimal differences in charges to net income of lessees. Our experience indicates that this may generally not be the case. For example, a large global retailer developed pro forma financial impacts on the company's 2013 operating results that would result from applying the accelerated expense recognition patterns consistent with the proposed Type A accounting approach to all of the company's leases. The resulting pro forma net income was $46 million, $0.16 per share, less than net income reported for 2013. Applying the company's multiple to the $0.16 decrease in net income would negatively impact the company's stock price by $2-3 or about 10%.

Simply put, we do not consider this 10% negative impact to be "minimal."

In addition to the negative impact on earnings of applying the Type A approach to all leases, we agree with the analyses and conclusions reached with respect to the impacts on the balance sheets of a number of large global companies described in the June 25, 2014 unsolicited comment letter submitted to the Boards by the Equipment Leasing and Finance Association[1].

[1]http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175828960081&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content Disposition&blobheadervalue2=831047&blobheadervalue1=filename%3DLEASES-14.UNS.0009.ELFA_WILLIAM_G._SUTTON.pdf&blobcol=urldata&blobtable=MungoBlobs

Usefulness of Reported Financial Information

The Boards have consistently indicated that financial standards should primarily serve the needs of investors and other financial statement users. NAREIT strongly agrees with this principle and believes that the presentation of financial information must provide relevant information to financial statement users. If information is not relevant, there is no need to debate the conceptual merits of the accounting.

An important standing committee of NAREIT is its Best Financial Practices Council. This Council reviews all financial reporting proposals that may impact the real estate industry's financial reporting, including proposals from the FASB, IASB and Securities and Exchange Commission (SEC). The Council currently includes 27 members representing a broad cross section of NAREIT's membership, including six investors/sell-side analysts. These financial statement users (and other investors and analysts who are NAREIT members) have been very clear in their position that, to be relevant, payments made by lessees pursuant to a lease of property should be reported as rent expense and not bifurcated as interest and amortization. Further, investors/sell-side analysts on the Council have consistently stated that, should the new Leases standard result in the elimination of rent expense, they would then ask companies to assist them in unwinding the proposed accounting. This would lead to analysts making capital allocation decisions based on unaudited/non-GAAP financial information, which in our view would not provide users with the most reliable decision-useful information.

If you would like to discuss our comments, please contact George Yungmann, NAREIT's Senior Vice President, Financial Standards, at 202-739-9432 or gyungmann@nareit.com, or Christopher Drula, NAREIT's Vice President, Financial Standards, at 202-739-9442 or cdrula@nareit.com.

Respectfully submitted,

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