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## NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS®

July 21, 2003

The Honorable Paul Volcker Chairman of the Trustees of the IASC Foundation 610 5<sup>th</sup> Avenue, Suite 420 New York, New York 10020

## Dear Chairman Volcker:

We are contacting you in your capacity as Chairman of the Trustees of the IASC Foundation to share certain of our concerns with the American Institute of Certified Public Accountants' Accounting Standards Executive Committee's (AcSEC's) proposed changes in accounting for property, plant and equipment (PP&E) under U.S. GAAP.

Bernard Winograd of Prudential Investment Management Services LLC and a prominent member of NAREIT suggested that we share with you our concerns that focus on those proposed changes that would widen the divergence of U.S. GAAP from International Accounting Standards (IAS). We have expressed all of our concerns with respect to AcSEC's proposed rules to Robert Herz, Chairman of the Financial Accounting Standards Board (FASB), in the enclosed letter.

NAREIT is the national trade association for real estate investment trusts (REITs) and other publicly traded real estate companies. NAREIT members include over 175 REITs and other companies that develop, own, operate, and finance investment property, as well as those firms and individuals who advise, study, and service these businesses. Providing useful and relevant financial information related to investment property is of vital importance to the capital and communications-related activities of companies involved in these businesses.

Our most significant concern is that the proposed rules would require a significant change from current accounting for investment property under U.S. GAAP and, at the same time, widen the divergence from the accounting for investment property provided for under IAS 40, *Investment Property* (IAS 40). IAS 40 allows companies to report investment property at fair value in statements of financial position. The valuation of investment property requires that the property be considered as a single integrated economic unit – not as hundreds of individual components. Further, IAS 40 requires that capital expenditures related to investment properties carried at fair value be capitalized and added to the aggregate cost basis of the property. Contrary to this international accounting model, AcSEC's proposed rules would require that investment property be

1875 Eye Street, NW, Suite 600, Washington, DC 20006-5413 Phone 202-739-9400 Fax 202-739-9401 www.nareit.com Paul Volcker July 21, 2003 Page 2

accounted for as hundreds of components if a company plans to capitalize the costs of maintaining or enhancing the earning power of the property.

While we are not suggesting that standard setters should provide for a fair value reporting model for investment property under U.S. GAAP at this time, we are concerned that the proposed rules would cause further divergence from current international standards.

Another example of how AcSEC's proposed rules would increase divergence from international standards relates to the accounting for major maintenance projects. We understand that IAS 16 (as amended by the improvements project) allows that a major inspection can be accounted for as a separate component – an "inspection component, as distinguished from physical components." This accounting is similar to current practice in the U.S. that allows for the capitalization of these kinds of costs and amortizing them over the period benefited. AcSEC's current conclusion is that only costs of physical components that are replaced as part of a major maintenance project would be subject to capitalization.

We are very concerned that AcSEC's proposed changes to U.S. GAAP will frustrate convergence to global accounting standards because they would increase U.S. divergence with the latest international accounting standards. This is especially true with respect to accounting for investment property that is covered by a specific international accounting standard.

We would appreciate it if you would review this situation and, if you agree with our views, communicate your thoughts to the FASB. If you would like to discuss our concerns with us, please contact either one of us: Steve Wechsler, President and CEO, at 202-739-9400 (swechsler@nareit.com) or George Yungmann, Vice President, Financial Standards at 202-739-9432 (gyungmann@nareit.com).

Sincerely,

Steven A. Wechsler

President and CEO

George L. Yungmann

Vice President, Financial Standards

CC: Robert H. Herz, Chairman, Financial Accounting Standards Board Bernard Winograd, President, Prudential Investment Management

Enclosure