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

August 15, 2008

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1590-100, Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities – an Amendment of FASB Statement No. 133*

Dear Mr. Golden:

The National Association of Real Estate Investment Trusts® (NAREIT) welcomes this opportunity to respond to the request for comments from the Financial Accounting Standards Board (FASB or Board) on the proposal contained in the FASB Exposure Draft, *Accounting for Hedging Activities – an Amendment of FASB Statement No. 133* (“the ED”).

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.

NAREIT commends and supports the FASB’s efforts to continue to develop high-quality accounting standards that improve the transparency, usefulness and credibility of financial reporting. In particular, we support the efforts to achieve additional convergence between the U.S. standards and the International Financial Reporting Standards.

NAREIT is strongly committed to improving the relevance and usefulness of financial reporting and routinely provides input on FASB, International Accounting Standards Board and Securities and Exchange Commission proposals. This letter offers certain general and specific comments in response to the ED issued for comment on June 6, 2008. NAREIT has discussed the ED with a task force of its members to determine their views and the industry-wide impacts that this ED would have on the real estate industry.



We agree with a number of proposed changes in accounting for hedging transactions included in the ED and believe that they will simplify and improve hedge accounting.

We especially support:

- the need to reassess effectiveness after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective;
- the change from highly effective to reasonably effective hedging relationships; and,
- the intention to increase the ability to utilize a qualitative assessment.

The Elimination of the Bifurcation-by-Risk Model

NAREIT's most significant issue with the proposed changes is the elimination of the bifurcation-by-risk model. NAREIT believes that the benefits of the Board's proposal would be limited because of this change as discussed in further detail below. Rather than simplifying hedge accounting, the proposed change would dramatically increase complexity in several areas and would adversely affect companies in their ability to manage their risks. We also believe that the Board has underestimated the costs of managing and accounting for hedge transactions under the proposed amendments, as the incorporation of non-hedged risks to determine effectiveness would require the development and use of sophisticated models and significant resources.

The Impact of Ineffectiveness on the Statement of Operations

The inability to designate individual risks may negatively affect common REIT hedging strategies including hedges of forecasted debt issuances and hedges entered into after the inception of the debt. Most notably, designating a derivative as a hedge of the overall changes in cash flows (as opposed to only the benchmark interest rate) in a cash flow hedge would require many entities to frequently report the impacts of ineffectiveness in the statement of operations, the amount of which could be significant for many of our members.

Ineffectiveness would result from the requirement to measure unhedged risks, such as credit risk and new issuance supply/demand risk. A perfectly effective hedge would not be achievable because hedging products do not exist to manage these risks (nor is management even attempting to hedge these risks). Therefore, companies would be required to record amounts in earnings when the hedge may be perfectly effective at hedging the risk that management chooses to hedge – the interest rate.

The Comparability of the Financial Statements

Under the proposed hedge accounting model, there are common circumstances when an entity may not qualify for hedge accounting with traditional interest-rate-based derivatives due to changes in creditworthiness, which would create inconsistent reporting in the financial



statements between entities. For example, to apply hedge accounting, an entity would need to show that an interest rate derivative (such as an interest rate swap) would be reasonably effective at offsetting changes in cash flows due to changes in interest rates and credit. As pointed out in paragraph A56 in the Alternative Views of the ED, an interest rate swap would not be expected to provide any offset to changes in cash flows due to changes in credit. There may not even be a negative correlation.

Therefore, an entity with a strong and stable credit rating may qualify for hedge accounting as opposed to an entity with a volatile credit rating that may not qualify. NAREIT believes that this result would diminish the comparability of financial statements between entities that enter into the same hedging transaction. Furthermore, while a goal of the proposed hedge accounting model is to reflect the economics of the unhedged risks in the financial statements (as discussed in paragraph A16 of the ED), the unhedged risks, as well as the hedged risk itself, may not even be reported in the financial statements for an entity with a volatile credit rating that does not qualify for hedge accounting.

In addition, the accounting may differ for entities with different credit characteristics, even though the transaction to hedge an interest rate risk is identical. This result would further increase inconsistency in the financial statements between entities. The entity with the strong and stable credit would have predictable changes in credit and would most likely have a reasonably effective hedging relationship. Therefore, minimal ineffectiveness would be reported in the statement of operations and changes in value would be reported in other comprehensive income. In contrast, the entity with the more volatile credit may not qualify for hedge accounting and would report the effects of the entire transaction directly in the statement of operations.

The Economics of the Hedged Transactions

NAREIT also strongly recommends that the current bifurcation-by-risk model remain in practice, because the ineffectiveness of a hedging relationship that results from unhedged risks would not faithfully represent the economics of the hedge transaction.

The accounting for the economic impacts of the risks not managed by a hedging instrument should be excluded from hedge accounting. Paragraph A16 of the ED expresses the importance of reflecting the economics of unhedged risks in the financial statements to provide a more comprehensive view of an entity's financial position and results of operations from hedge accounting activities. However, the unmanaged risks inherent in an otherwise hedged item exist independent of the hedging instrument. For example, the ED would require the ineffectiveness from the change in credit spread of a loan or forecasted debt issuance to be reported in earnings when it has no relation to the hedge itself. Furthermore, an entity would not report similar ineffectiveness in the statement of operations for any unhedged loans, which would create inconsistency in the accounting and reporting of hedged versus unhedged loans.

Some of our members have stated that if the ED is adopted in its current form, they simply would no longer pursue hedge accounting. However, such a policy would not reflect an entity's



Mr. Russell G. Golden

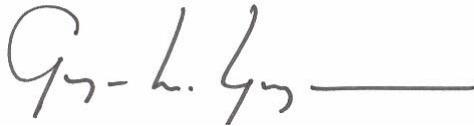
August 15, 2008

Page 4

economic results in the financial statements, thus undermining the very purpose of the financial statements. For this reason and the other reasons stated above, we do not believe the proposed change in the ED to eliminate the bifurcation-by-risk model would be an improvement to the usefulness or comparability of the financial statements.

If the Board or its staff would like to discuss NAREIT's views as expressed in this comment letter, please do not hesitate to contact George Yungmann at (202) 739-9432 or Sally Glenn at (202) 739-9442.

Respectfully submitted,

Handwritten signature of George Yungmann in black ink, followed by a horizontal line.

George Yungmann
Senior Vice President, Financial Standards

Handwritten signature of Sally Glenn in black ink, followed by a horizontal line.

Sally Glenn
Director, Financial Standards

