NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

January 23, 2009

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

Re: Proposed FSP FAS 144-d

Dear Mr. Golden:

We are pleased to submit this comment letter on the Financial Accounting Standards Board's (FASB) exposure draft of proposed Staff Position 144-d that would amend Statement of Financial Accounting Standards No. 144 (FAS 144), *Accounting for the Impairment or Disposition of Long-Lived Assets* (the Proposal). We are submitting these comments on behalf of the Real Estate Equity Securitization Alliance (the Alliance), which includes the following real estate organizations:

Association for Real Estate Securitization (ARES) (Japan)
Asian Public Real Estate Association (APREA)
British Property Federation (BPF)
European Public Real Estate Association (EPRA)
National Association of Real Estate Investment Trusts (NAREIT)® (U.S.)
Property Council of Australia (PCA)
Real Property Association of Canada (REALpac)

Members of the organizations identified above would be pleased to meet with the Board or its staff to discuss any questions regarding our comments. The Alliance has also responded separately to the International Accounting Standards Board's (IASB) proposed amendments to IFRS No. 5 *Non-current Assets Held for Sale and Discontinued Operations (IFRS 5).* A copy of this response in attached to this letter.

We thank the FASB for this opportunity to comment on the proposal. Please contact George Yungmann, NAREIT's Sr. VP, Financial Standards at gyungmann@nareit.com or 1-202-739-9432 if you would like to discuss our comments.

Respectfully submitted,

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Comment Letter Submitted by the

National Association of Real Estate Investment Trusts

On behalf of the Real Estate Equity Securitization Alliance,
which includes the following organizations:

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In response to the

Exposure Draft of Proposed

FASB Staff Position 144-d that would amend Statement of Financial Accounting Standards No. 144 (FAS 144), ***Accounting for the Impairment or Disposition of Long-Lived Assets***

Issued by the Financial Accounting Standards Board

September 2008

NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS®

January 23, 2009

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

Re: Proposed FSP FAS 144-d

Dear Mr. Golden:

The undersigned real estate organizations welcome this opportunity to respond to the request from the Financial Accounting Standards Board (FASB or Board) for comments on the proposed FASB Staff Position that would amend FAS 144 (the Proposal). The undersigned organizations represent publicly traded real estate companies and Real Estate Investment Trusts (REITs) in the United Kingdom, Europe, Australia, Asia, North America and Japan. Our members are real estate companies and other businesses that develop, own, operate and finance investment property, as well as those firms and individuals who advise, study and service those businesses.

Most member companies of the organizations submitting comments in this letter have been accounting for discontinued operations under FAS 144 or International Financial Reporting Standard No.5 (IFRS 5). Canada reports discontinued operations under requirements similar to FAS 144 and member companies in Japan do not report discontinued operations under any specific standard. Applying these standards to real estate companies around the world has resulted in widely different reporting for discontinued operations. For the most part, those companies reporting in accordance with FAS 144 have been required to report virtually all dispositions of investment property, even individual properties, as discontinued operations. Those companies reporting under IFRS 5 have generally not reported dispositions of properties as discontinued operations unless the property(ies) disposed of or transferred to "held for sale" consists of a component that represents, individually or as a group, a separate major line of business or geographical area of operation.

One of the major goals of the Alliance is to enhance the comparability of financial information between real estate companies worldwide. We, therefore, applaud the IASB and FASB (the Boards) for developing a converged definition of discontinued operations.

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We understand that both the FASB and IASB have concluded that (a) the definition of discontinued operations should not include too many components and (b) the definition of discontinued operations in the current US accounting literature (FAS 144) results in too many activities being classified as discontinued operations. The real estate industry fully agrees with these conclusions by the Boards. However, as more fully discussed below, we are concerned that the exposure drafts proposed by the FASB and IASB may still result in a large number of activities being classified as discontinued operations, activities that do not, in fact, represent a strategic shift in the entity's overall operations.

To emphasize, it is our strongly held view that whether there has been a strategic shift in the entity's operations should be the determining factor in whether the disposition of those operations should be reported as discontinued operations.

Definition of a Discontinued Operation

Paragraph A2a of the proposal indicates that "some users of financial statements have indicated that a disposal activity should be presented as a discontinued operation only when an entity has made a strategic shift in its operations." We strongly support this statement of principle. Further, the Board has concluded that the "disposal of an operating segment would most likely indicate a strategic shift in an entity's operations." For the reasons discussed below, we believe that this identification of a strategic shift in an entity's operations can be improved upon.

In particular, the overwhelming consensus of the Alliance is that the converged definition of a discontinued operation should refer to a portion of a company's operations that represents either 1) a reportable segment or 2) a *significant* operating segment.

A *significant* operating segment could be defined as an operating segment, the disposal of which, in management's view, would represent a significant shift in operations, or an operating segment with revenues or assets greater than minimum thresholds.

Currently, IFRS 5, paragraph 32 requires reporting a discontinued operation only if the component transferred to "held for sale" (transfers) or disposed of "represents a separate major line of business or geographical area of operations." We believe that, while the Board has rejected this criterion for reporting a disposition as a discontinued operation, it suggests that a "significance" threshold by reference to a company's business activities should nevertheless be applied in reporting dispositions as discontinued operations. Likewise, we believe that a notion of "significance" should be considered in identifying a company's *strategic* business activities. As further discussed below, the Alliance, therefore, believes that only transfers or dispositions of:

1. entire reportable segments, and

2. operating segments, which:

    a. management believes represents a strategic shift in operations or
    b. constitute revenues or assets greater than appropriate minimum thresholds

should be reported as discontinued operations and that this conclusion would be most consistent with the statement of principle identified above.

Issues with respect to identifying operating segments

We believe that "operating segments," which may be based on a wide range of criteria, may or may not correspond to a company's strategic operating activities and thus the disposition of any operating segment may or may not represent a strategic shift in a company's operations.

Operating segments may be defined based on a number of different criteria. In the real estate industry these criteria include:

A. Geography

B. Organization – properties may be grouped under group or segment managers

C. Property sectors – retail, office, industrial, multi-family residential, etc.

D. Type of property – retail centers might be grouped by regional malls, community centers, etc.

E. Class of property – properties might be grouped by the quality of each property; Class A, exceptional quality; Class B, high quality, Class C, moderate quality, etc.

F. Physical condition – properties undergoing expansion, remerchandising and/or significant renovation

We believe that the transfer or disposition of an entire operating segment that is based on geography, property sector, type of property or class of property will often represent a strategic shift in a company's operations. At the same time, transfers or dispositions of operating segments based on organizational structure or physical condition may not typically represent a strategic shift in operations. Furthermore, operating segments can be of varying sizes, and may indeed be quite insignificant to a company's operations. This leads us to conclude that reporting dispositions of all operating segments as discontinued operations may be misleading to financial statement consumers in that some transfers or dispositions reported as discontinued operations will represent a strategic shift in a company's operations whereas others will not.

We believe that the disposition of a reportable segment would almost always represent a strategic shift in the operations of a company, as that would mean that a company has disposed of all of its operating segments that are similar to one another. Further, we believe that disposition of an individual operating segment that is significant in size would highly likely represent a strategic shift even if it is not itself a reportable segment.

We suggest therefore that the amended standard should include minimum quantitative thresholds below which a company would not be required to report the transfer or disposition of an operating segment that is not itself a reportable segment as a discontinued operation. The thresholds could be similar to those provided for in paragraph 13 of IFRS 8 *Operating Segments*. Although dispositions of operating segments with metrics below the minimum thresholds would not be reported as discontinued operations, the enhanced disclosures proposed would be provided.

The Alliance also believes that the amended standard should provide flexibility that would allow management to report a disposition as a discontinued operation if management believes that the disposition represents a strategic shift in the company's operations, whether or not it meets any defined criterion.

Definition of an Operating Segment

In our work to analyze and understand the implications of the Proposal, it has come to our attention that there are inconsistent interpretations in applying existing guidance with respect to operating segments.

Members of the Alliance have discussed the proposed amendments to IFRS 5 and FAS 144 with real estate industry financial statement preparers and accounting firms that audit and report on industry financial statements around the world. Most of these industry participants believe that, despite the fact that discrete financial information is available for each individual investment property, individual properties cannot be considered to be operating segments unless that information is *regularly* reviewed by the chief operating decision-maker (CODM).

Others believe that, because an investment property, 1) engages in business activities from which it may earn revenues and incur expenses, 2) has discrete financial information available and 3) may have its operating results reviewed by the CODM at any time *on an irregular or exception basis*, all individual investment properties should generally be considered operating segments. Those that take this position would report virtually every sale of an investment property as a discontinued operation -- a practice that we understand the FASB has tried to alleviate by modifying the definition of a discontinued operation.

We believe that this inconsistency in the application of the definition of an operating segment provides further support for our view that the Boards should require discontinued operations reporting *only* for the transfer or disposal of an entire reportable segment or a significant operating segment.

We also believe that the Board could, as part of this project, help to alleviate the diversity in interpretation of the definition of an operating segment by clarifying that the fact that the CODM could review financial information about a component on an exception basis does not result in that component being deemed an operating segment.

Further, the amended standard could reiterate, either in the proposed standard or in the basis for conclusions, that there may be operations similar to "reporting units" below the level of operating segments. "Reporting units" are defined in paragraph 30 of FAS 142 *Goodwill and Other Intangible Assets* as follows:

> "A reporting unit is an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component."

It seems to us that the important distinction between a "reporting unit" and an "operating segment" is the level of management that *regularly* reviews operating results. If the CODM regularly reviews the operating results of a component, the component would generally be an operating segment. On the other hand, if the operating segment manager regularly reviews the operating results of the component and the CODM only reviews these results irregularly on an exception basis, the component generally would represent a reporting unit below the level of an operating segment.

Useful Disclosures Provided

Members of the Alliance believe that the presentation and disclosures required with respect to transfers or dispositions of all components would be very useful to financial statement consumers. These disclosures would provide financial analysts and others with information to understand the impact of dispositions on the operating results for all periods presented. This would enhance the ability of analysts to develop expectations of future operating cash flows.

Summary of Alliance Views

The Alliance believes that together:

- the requirement to provide enhanced disclosures for *all* transfers and disposals of an entity's components and

- reporting only dispositions of reportable segments or significant operating segments as discontinued operations

would greatly enhance the understanding of the impacts of dispositions on both historical and prospective operating earnings and cash flows.

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