

OFFICERS

Chair
 William D. Sanders
Security Capital Group Incorporated

President and CEO
 Steven A. Wechsler

First Vice Chair
 Steven Roth
Vornado Realty Trust

Second Vice Chair
 Douglas Crocker II
Equity Residential Properties Trust

Treasurer
 Hamid R. Moghadam
AMB Property Corporation

BOARD OF GOVERNORS

Beyce Blair
AvolonBay Communities, Inc.

John Buckbaum
General Growth Properties, Inc.

Debra Cafaro
Ventat, Inc.

Timothy H. Callahan
Equity Office Properties Trust

Richard J. Campo
Garden Property Trust

Thomas A. Carr
CaroAmerica Realty Corporation

Richard B. Clark
Brookfield Properties Corporation

Arthur M. Coppola
The Macerich Company

Thomas J. Corcoran Jr.
FitCar Lodging Trust Inc.

Anthony W. Deering
The Rouse Company

John N. Foy
CBL & Associates Properties Trust

John S. Gato, Jr.
CentriPoint Properties Trust

John C. Goff
Crescent Real Estate Equities Company

Thomas L. Hefner
Duke Realty Corporation

Mitchell E. Hersh
Mack-Cali Realty Corporation

Rick R. Halley
Plan Creek Timber Co., Inc.

Dean Jernigan
Savvy USA, Inc.

Harvey Lenkin
Public Storage, Inc.

Edward H. Linde
Boston Properties, Inc.

Thomas H. Lowder
Colonial Properties Trust

Peter S. Lowry
Westfield America, Inc.

Irving E. Lyons, III
ProLogic Trust

Frank C. McDowell
BRE Properties, Inc.

Christopher J. Nassetta
Hest Marriott Corporation

Scott Reclier
Beckson Associates Realty Corporation

Nelson C. Rising
Castellus Development Corporation

R. Scot Sellers
Archstone Communities, Inc.

David E. Simon
Simon Property Group

Warren E. Spickett, Jr.
Spickett Partners

Martin E. Stein, Jr.
Regency Centers

Jay Sugarman
Star Financial, Inc.

Robert S. Tashman
Tashman Centers, Inc.

Bernard Winograd
Prudential Real Estate Investors

Scott A. Wolstein
Developers Diversified Realty Corporation

Samuel Zell
Equity Group Investments, LLC
Equity Office Properties Trust
Equity Residential Properties Trust
Manufactured Home Communities

Richard S. Ziman
Arden Realty, Inc.



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

July 2, 2002

Financial Accounting Standards Board
 MP&T Director
 File Reference No. 1100-163
 401 Merritt 7
 P.O. Box 5116
 Norwalk, CT 06856-5116

Re: Proposed Statement of Financial Accounting Standards – Amendment of Statement 133 on Derivative Instruments and Hedging Activities

Dear MP&T Director:

The National Association of Real Estate Investment Trusts (NAREIT) is pleased to have the opportunity to respond to the Financial Accounting Standards Board’s (the Board) Exposure Draft of the above referenced proposal. NAREIT is the national trade association for real estate investment trusts (REITs) and other publicly traded real estate companies. Members include REITs and other businesses that develop, own, operate, and finance income-producing real estate, as well as those firms and individuals who advise, study, and service these businesses.

The business of developing, owning and operating income-producing property regularly involves the use of debt capital in the form of bonds, lines of credit, and mortgages, and may involve the use of foreign exchange transactions. In this context, the accounting standards for derivative instruments and hedging activities are important to producing useful and relevant financial reports for real estate companies. NAREIT supports the efforts to clarify and bring consistency to the application of accounting for these activities. NAREIT’s comments on the Exposure Draft are presented below.

? ? ? ? ?

Modification of a Derivative

In paragraphs 6(b) and 12 of Statement 133, the Board describes certain rules for those non-option-based products with an initial net investment of more than five percent of the fully prepaid amount. Our questions and requests for clearer guidance about the application of these paragraphs to swaps and foreign exchange (FX) forwards are set forth below. We also would request clarification about the appropriate accounting under Statement 133 for the bifurcation of the loan portion that results from the application of this rule.

Our request for clarification is triggered by certain real estate companies that enter into arrangements to modify and/or restructure key provisions of an existing derivative instrument, such as a swap or an FX forward. Instigated by the current low interest rate environment, major money-center banks that serve as derivatives counterparties on interest rate swaps held by REITs and real estate companies offer swap holders (involved in cash flow hedging relationships) an opportunity to reduce the fixed rate of the swap in exchange for an extension of the maturity date of the swap. This revised derivative is hereafter referred to as an “extend-and-blend swap.”

The arrangement under the modified swap, now an extend-and-blend swap, will be *off market*; the swap would have a negative fair value as of the date of modification. In the extend-and-blend hedge modification, the swap holder benefits from avoiding a charge to cash on execution of the extend-and-blend swap, and simultaneously reducing the ongoing cash outflows associated with subsequent periodic settlements as a result of the reduction in the fixed leg of the swap.

NAREIT requests that the Derivatives Implementation Group (DIG) consider clarifying the implications of this scenario, or other transactions that could be analogized involving modifications of derivative instruments. Specifically, (1) whether an extend-and-blend swap should be considered a new derivative subject to the initial net investment test or whether it is an existing relationship, and (2) if it is an existing relationship, what is the appropriate methodology to account for the inherent “financing element” of these types of arrangements?

Should the DIG ultimately determine that an extend-and-blend swap be bifurcated into a debt host (with the value of the financing equal to the fair value of the modified terms) and a derivative comprised of an at-the-money swap, it would be helpful if the accounting at the time of initial application and going forward were described and illustrated with an example. NAREIT requests that the guidance and illustration include the methodology for amortizing the *financing* element of an extend-and-blend swap into earnings. The economics of the transaction suggest that the financing element would be *amortized* into earnings through the periodic swap settlements using a comparison of the actual cash outlay of the extend-and-blend swap to the amount that would have otherwise been paid had the swap been executed *at market*.

MP&T Director

July 2, 2002

Page 3

NAREIT appreciates the opportunity to continue to participate in FASB's standard setting process. This comment letter has been reviewed and approved by NAREIT's Best Financial Practices Council. If you have any questions regarding this response, please contact me at (202) 739-9432 or David Taube at (202) 739-9442.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "G. L. Yungmann" with a horizontal line extending to the right.

George L. Yungmann
Vice President, Financial Standards