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

October 20, 2003

Ms. Anne McGeachin
Project Manager
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: Proposed International Financial Reporting Standard – *Disposal of Non-Current Assets and Presentation of Discontinued Operations*

Dear Ms. McGeachin:

The National Association of Real Estate Investment Trusts® (NAREIT®) is pleased to have the opportunity to respond to the International Accounting Standards Board's (the Board) Exposure Draft, *Disposal of Non-Current Assets and Presentation of Discontinued Operations* (ED 4). 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 involves long-lived assets and their disposal. In this context, the accounting standards for asset disposal and the presentation of discontinued operations are of vital importance to producing useful and relevant financial reports for publicly traded real estate companies.

NAREIT supports the Board's efforts to converge accounting standards around the world. It welcomes the Board's efforts to enhance the usefulness and relevance of financial reporting by developing standards that would reduce differences between International Financial Reporting Standards and U.S. Generally Accepted Accounting Principles, specifically in consideration of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144).

However, in response to Question 8, *Classification as a discontinued operation*, we believe that it is not appropriate for comparative financial statements to be restated every time a property is disposed. It is not unusual for real estate companies to frequently dispose of properties. Companies often acquire properties with substantial vacancy, improve and lease-up the properties utilizing



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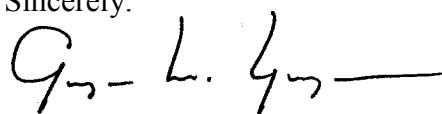
the expertise of their asset and property management personnel and then sell the asset to an institutional or other investor who requires a consistent return from a stabilized asset. The sale proceeds are then typically reinvested in new properties, repeating the cycle. To illustrate this point, we have reviewed the frequency of reported gains/losses from property dispositions by 40 large real estate companies during 1998, 1999 and 2000. Of the 120 annual periods (40 companies, 3 years) reviewed, property dispositions were reported in 103 (86%) of the annual periods. Further, 28 (70%) of the companies reported property dispositions in each of the three years reviewed. It is clear that property dispositions represent an ongoing activity for many real estate companies and are integral to their business strategy. Investors have applauded the strategy of recycling capital through the sale of mature properties and reinvesting the proceeds in new properties. We do not believe that this type of disposition activity represents what investors typically view as "discontinued operations." Treating **all** of these dispositions as discontinued operations and, therefore, constantly restating previously reported operating results, causes a great deal of confusion to financial statement users.

Further, we believe that reporting discontinued operations suggests a shift in a company's business plan and, therefore, should not be used for insignificant dispositions. For example, it is inappropriate for a real estate company that owns and operates hundreds of office buildings to report the disposition of one building or any number of buildings having an insignificant effect on a company's cash flows as discontinued operations.

We believe that the rules of classification as a discontinued operation should only apply to significant components of an entity's business and not to individual sales of long-term assets. In assessing whether a component is significant, an entity should consider all relevant facts and circumstances, both quantitative and qualitative. We respectfully request that the Board allow for judgment in determining whether, based on facts and circumstances unique to a particular entity, a disposal transaction is significant and should be reported in discontinued operations.

NAREIT appreciates the opportunity to continue to participate in Board's standard setting process. This comment letter has been reviewed and approved by NAREIT's Best Financial Practices Council¹. If you have any questions regarding this response, please contact George Yungmann at (202) 739-9432 or Gaurav Agarwal at (202) 739-9442.

Sincerely,



George Yungmann
V.P. Financial Standards

¹ The Best Financial Practices Council is a group of financial executives from real estate companies, investment and advisory firms, and audit firms. The Council studies and formulates financial reporting practices that are best suited for the industry and prepares a recommendation to the NAREIT Executive Committee and Board of Governors for the industry to adopt a set of specific practices.

