Real Estate Accounting Quarterly

October 2000

In this issue:

- AcSEC Moves Closer to Issuing SOP Exposure Drafts
  - Cost Capitalization
  - Joint Ventures
- SEC Issues Guidance and New Rules
  - Audit Risk Alert Topics
  - FAQs on Implementing SAB101
  - Selective Disclosures
- Update on FASB Activities
  - Asset Impairment and Disposal
  - Consolidations
  - Business Combination
  - Joint Ventures
  - Derivatives and Hedging
  - Issuance of FASB 140
  - Liabilities and Equity
  - Nontraditional Business Disclosures
- G4+1 Activities
  - Leases Special Report
  - Accounting for Stock-Based Payments
  - Fair Value
- Other Standards Developments
- NAREIT SFO Workshop

AcSEC Moves Closer to Issuing SOP Exposure Drafts

Cost Capitalization – Status and Update

In July and September 2000, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) continued to deliberate its draft Statement of Position (SOP), *Accounting for Certain Costs and Activities Related to Property, Plant and Equipment,* that will specify which expenditures should be capitalized and which should be expensed. This project includes capitalization accounting guidance for property, plant and equipment (PP&E) for all industries, as well as the accounting for costs related to major repairs and maintenance expenditures (in some industries known as overhauls and turnaround costs).

After agreeing to several changes at its September meeting, the AcSEC unanimously voted to submit the SOP to the FASB to obtain clearance as an Exposure Draft (ED). AcSEC's current timeline is to issue an ED of the SOP late in the fourth quarter of 2000 or in the first quarter of 2001, with a final standard effective for 2002.

The main issues that could have a material negative impact on the net income and FFO of real estate companies include: (1) criteria for capitalization; (2) the accounting for components; and (3) the accounting for indirect/overhead costs.

NAREIT Cost Capitalization Questionnaire

To gather important information about our industry's cost capitalization practices, and to assist in advocating our positions with the AcSEC and the FASB on the proposed accounting guidance discussed below, NAREIT s Cost Capitalization Task Force and staff designed and distributed to all corporate members a questionnaire relating to cost capitalization. At the beginning of September, nearly 200 questionnaires were distributed, of which nearly 90 have been received. **If you have not yet completed the questionnaire, please do so as soon as possible.** Any questions about the questionnaire should be directed to David Taube at dtaube@nareit.com or (202)739-9442.

For expenditures related to properties in operation, the proposal would generally limit capitalization to costs that represent additional or replacement components of PP&E. Other capital maintenance expenditures (painting, resurfacing, refurbishments, etc.) would only be capitalizable to the extent that they are accounted for as separate components.

The proposal would require component accounting for PP&E to the extent that when a component of PP&E has an expected useful life that differs from the expected useful life of the PP&E asset to

© Copyright 2000 National Association of Real Estate Investment Trusts ®

which it relates, the component would be accounted for separately and depreciated or amortized over its expected useful life. The costs assigned to specific components would be based on specific identification if practical or cost-beneficial, or another reasonable method (e.g., relative fair value, relative square footage, etc.). Capitalization of PP&E or PP&E components would not be required below reasonable thresholds.

Under the proposal, the composite method of depreciation could not be used unless it produces results not materially different from those obtained from component accounting. **Component accounting would create significant, additional detailed cost accounting.** Inconsistent with most current practice using the composite method, component accounting would require an estimate of the remaining net book value of replaced PPE or a component so that the remaining net book value would be charged to expense.

As part of the SOP, the AcSEC is recommending to the FASB that SFAS 67 be amended to conform to the proposed SOP. **If adopted, this amendment would limit considerably the capitalization of indirect/overhead costs related to new development, expansions, and major renovations.** Under the SOP, internal staff costs would only be capitalized to the extent that they are directly identifiable with the specific PP&E and would be limited to payroll and payroll-benefit related costs. All general and administrative costs and overhead costs (including all costs of support functions) would be expensed as incurred.

The SOP would permit two alternatives to initially adopt component accounting: (1) retroactive implementation whereby companies could choose to allocate the current net book value of PPE to all asset components or (2) prospective implementation whereby the determination or estimate of a component's net book value would be deferred until it is replaced.

NAREIT Task Force Process

NAREIT's Cost Capitalization Task Force, representing more than 40 member companies and firms, continues to monitor the development of the SOP. NAREIT staff has attended four public AcSEC meetings at which the proposed SOP has been discussed, and in connection with the task force, has submitted three comment letters to the AICPA. In addition, NAREIT staff and task force members have discussed the industry's views with several AcSEC members and requested that our audit firm members forward our positions to their AcSEC representatives.

NAREIT's Cost Capitalization Task Force will complete a comment letter upon issuance of a public ED. In addition, NAREIT will be requesting that each member company develop a response to the ED. The NAREIT comment letter will be distributed shortly after the ED is issued to provide a basis for member company responses. NAREIT's task force and staff will be prepared to assist companies in this effort. Also important to this advocacy effort will be for each company to share its and NAREIT's views on the ED with its audit firm.

NAREIT staff also is in the process of identifying other industries and associations that support our views on the proposed SOP. To date, we have discussed the proposal with the Edison Electric Institute (electric utilities), the Financial Executives Institute, the Association for Investment Management and Research, and the Equipment Leasing Association. Please contact us if you know of any other industries with which we should be working.

Joint Ventures

After re-deliberating its proposed SOP, *Accounting for Investors' Interests in Unconsolidated Real Estate Investments,* at its September 2000 meeting, the AcSEC obtained clearance from the FASB to issue the proposal as an ED. The ED is expected to be issued by the end of November.

The proposed SOP would clarify and expand SOP 78-9, *Accounting for Investments in Real Estate Ventures.* Under the proposal, the equity method of accounting would be used when an investor has significant influence in an unconsolidated real estate investment. In applying the equity method, the investor

would be required to use the Hypothetical Liquidation at Book Value (HLBV) approach, which is a complex, balance-sheet oriented approach that considers the investees' capital structure. Under the HLBV approach, the investor would calculate the impact on its earnings/loss based on the change in its residual interest in the investee.

NAREIT's Joint Ventures Task force plans to prepare an industry comment letter upon issuance of the ED. Anyone interested in participating should contact David Taube at dtaube@nareit.com or (202) 739-9442.

SEC Issues Guidance and New Rules

Audit Risk Alert Topics

In its annual letter to the AICPA highlighting Audit Risk Alert topics, SEC Chief Accountant Lynn Turner commented on a number of accounting and disclosure issues that the SEC staff has been addressing. Some of the topics of particular importance to real estate company financial reporting include:

- Income statement classification – a discussion of the importance that financial statement users have placed on individual income statement classifications, noting that some registrants are presenting separate line items to emphasize expenses (e.g., stock compensation expense) that do not involve a cash outflow. The staff believes that the statement of cash flows would be the most effective way to present the information in order to emphasize the non-cash nature of the expense. The staff also reiterated that gains and losses on disposals of assets should be reported and disclosed separately in the financial statements and in MD&A.
- New standards disclosures – a review of the disclosures required on the impact of recently issued accounting standards.
- Intangible assets acquired in a business combination – a review of the factors and assumptions that should be used in determining the useful lives of intangible assets, including goodwill.
- Segment disclosures – As was stated in its 1999 letter, the SEC staff continues to see instances in which the MD&A disclosures or press releases of registrants describe segments that differ from the segments identified and disclosed in the notes to the financial statements. The staff has requested registrants to amend their financial statements and may continue to do so in the future.
- SFAS 133 – a review of the documentation and disclosure requirements for the implementation of SFAS No. 133, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities.* The staff's comments focused on disclosures related to hedge ineffectiveness and gains/losses resulting from the discontinuance of cash flow hedges for forecasted transactions.
- Financial instrument and derivative contract terms - Financial statement preparers and their auditors are reminded of the need to understand and evaluate the provisions of all financial instrument contracts and other potential derivative contracts in order to properly classify and value these contracts in conformity with GAAP.
- MD&A Disclosures - Registrants are urged to consider the purpose of MD&A, which FRR No. 36 stated is "to give investors an opportunity to look at the registrant through the eyes of management by providing a historical and prospective analysis of the registrant's financial condition and results of operations, *with particular emphasis on the registrant's prospectus for the future* (emphasis added)." The staff is concerned that companies merely repeat, in MD&A, the amounts or disclosures included in the financial statements, or merely recalculate new amounts from those provided in the financial statements. MD&A discussions should clearly explain the known trends, demands, events, commitments and uncertainties that are reasonably likely to materially affect a registrant's liquidity, capital resources, and results of operations, and quantify the related effects.

Of interest to auditors, a large section of the letter includes several topics on "Effective Auditing." The complete letter is available on the Internet at www.sec.gov/offices/account/audrsk2k.htm.

Implementing SAB 101

On October 12, 2000, the staff of the SEC

published guidance, in the form of a Frequently Asked Questions (FAQ) document, on implementing Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition*. The guidance is in response to requests from auditors, preparers, and analysts about how the guidance in SAB 101 and the authoritative accounting literature on revenue recognition would apply to certain transactions. Companies are required to implement SAB 101 no later than the fourth quarter of fiscal years beginning after December 15, 1999. Although the document does not address contingent rents specifically, it does provide implicit guidance in Question No. 28. In addition, Section VIII provides transition guidance for implementing SAB 101. The FAQ document is available on the Internet at www.sec.gov/offices/account/sab101fq.htm.

Selective Disclosures

In August, the Securities and Exchange Commission (SEC) approved Regulation FD (Fair Disclosure) to address "selective disclosure," or the release of "material nonpublic information" to select individuals or groups rather than to the public at large. Regulation FD took effect on October 23, 2000.

With one significant exception, the new rules should not change current "best practices" for REITs and other publicly traded real estate companies that already are following procedures to ensure the prompt, accurate and public dissemination of important information to investors and the marketplace. The principal exception is that under Regulation FD any earnings guidance or information is likely "material" and cannot be given intentionally unless it is publicly disseminated at the same time. As a practical matter, companies are likely to find that any one-on-one or small group meeting with analysts or investors, as well as industry and investor conferences, will require more forethought under Regulation FD.

Regulation FD itself is straightforward: whenever an issuer, or person acting on its behalf, discloses material nonpublic information to specified persons (in general, securities market professionals or holders of the issuer's securities who may trade on the basis of the information), the issuer must make public disclosure of that same information, either simultaneously (for intentional disclosures) or promptly (for non-intentional disclosures).

A selective disclosure is "intentional" when the person making the disclosure either knows, or is reckless in not knowing, that the information is both material and nonpublic. Persons who can subject the company to operation of the rule include any senior official of the company (such as the President, CEO, CFO, directors, etc.) or any other officer, employee, or agent of the company (such as the company's investor relations professional) who regularly communicates with market professionals or shareholders who may trade on the information.

Market professionals include the following: broker-dealers, investment advisers, institutional investment managers, mutual funds, hedge funds, and any analysts or other persons associated with any of these entities. Also included is any holder of the company's securities who, under the circumstances, foreseeably could trade on the information, regardless of the number of shares owned.

Regulation FD does not apply to statements made to the following persons:

- "temporary insiders," such as lawyers, bankers, accountants and other persons who owe the company a duty of trust or confidence;
- any persons who expressly agree not to disclose or trade on the information;
- ratings agencies;
- the media (see below); or
- customers or suppliers.

Although disclosing material nonpublic information to the media will not trigger the disclosure requirements of Regulation FD, disclosing this information to the media generally will not be a substitute for issuing a press release or taking other steps to publicly disseminate material nonpublic information.

A more complete discussion of the new rule was included in a September 2000, NAREIT National Policy Bulletin, and will be the

subject of articles in future issues of *Real Estate Portfolio* magazine. The National Policy Bulletin, along with a tip sheet on ways to ensure compliance, can be found under Government Relations in the Members Only section of www.nareit.com.

Update on FASB Activities

Asset Impairment and Disposal

In August 2000, NAREIT organized a task force to respond to the FASB's issuance of an ED titled *Accounting for the Impairment or Disposal of Long-Lived Assets and for Obligations Associated with Disposal Activities*. The proposal, which would supersede FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* (issued in March 1995), would be effective, generally on a prospective basis, for all periods in financial statements issued for fiscal years beginning after December 15, 2001.

The proposal retains the recognition and measurement provisions of Statement 121 for long-lived assets to be held and used, but would provide additional guidance for implementing those provisions. It also establishes a single accounting model for long-lived assets to be disposed. The proposal would supersede the accounting and reporting provisions of Accounting Principles Board (APB) Opinion No. 30 that address the disposal of a segment of a business, so that the provisions of Statement 121, as proposed in the ED, would apply to discontinued segments. Reporting of discontinued operations would be extended to all "significant components" of an entity, thereby eliminating the definition of a segment of a business in APB 30.

In its submission dated October 13, NAREIT's Task Force generally supported the FASB's efforts to enhance its accounting guidance for the impairment and disposal of long-lived assets. However, the Task Force also suggested certain changes to the proposal related to the use of fair value in asset exchanges, grouping of assets, and the methodology used to test for recoverability and impairment. The Task Force's comment letter can be found under Accounting Issues in the Members Only section of www.nareit.com. NAREIT wishes to thank the task force and its chair, Steve Briggs (Equity Office Properties), for their assistance in developing the comment letter.

Consolidations

In September 2000, the FASB tentatively voted to issue in the first quarter of 2001 final rules on consolidations policy for "normal operating entities," while at the same time issuing an ED of a standard providing guidance with respect to the consolidation of "special-purpose entities" (SPE). The new consolidations policy for normal operating entities would require a parent company to consolidate all entities that it controls. The FASB has been deliberating various issues related to SPEs to develop criteria for when they should be consolidated. The matter has proven difficult because SPEs are frequently structured to avoid consolidation.

In the 5-2 vote, the dissenters voiced concern about issuing the final standard for normal operating entities before discussions and public comment of the SPE issues. The minority also believes that the consolidations documents should be issued simultaneously due to the overlap and interaction of issues between the approaches for SPEs and non-SPEs.

Business Combinations

After it reaches a set of tentative decisions on accounting for goodwill, later this year the FASB plans to redeliberate whether to retain the pooling method for business combinations. Meanwhile, a bipartisan group of Capitol Hill lawmakers are urging the FASB to delay the project pending further study. A bill has been introduced in the House that would establish a panel to review the economic impact of the proposal, while several members of the Senate have written a letter to the FASB conveying its concern about the fast pace of the project and requests a delay for any final decisions until Congress reconvenes next year. The FASB still expects to issue final rules in the first quarter of 2001.

In its response to Senator Spencer Abraham,

FASB Chairman Edmund L. Jenkins indicated that "the Board has not set any deadline for completing the project," but has estimated completion "to occur no earlier than late in the first quarter of 2001, well after Congress reconvenes." Addressing concerns about the fast pace of the project, Chairman Jenkins reviewed the due process for the project since it was added to the agenda in 1996, and provided assurance that "the Board's open due process and independent and objective decision making will be carefully and fully carried out," because "to do otherwise would jeopardize the very foundation upon which private-sector accounting standard setting was created."

In recent deliberations the FASB has reached tentative decisions regarding purchase accounting disclosures. An acquiring company would be required to disclose the fair values of the purchased firm's assets and liabilities by category, but not the book values of such items. In a reversal from the original proposal, it was decided that the provisions of APB 16 requiring the disclosure of the pro forma results of operations for the combining companies would be retained.

Joint Ventures

The FASB recently announced that it will be initiating a rulemaking effort dealing with new basis accounting for joint ventures and similar combinations of enterprises. Any new standard could affect the basis of reporting assets transferred in the creation of real estate joint ventures. Dubbed "business combinations phase two," the focus of the project would require the carrying amounts of all, or most, of the assets and liabilities in a combination or shared operation to be recorded at current values. The initial focus of the project has been to determine which transactions and events would result in new basis accounting. A draft principle that would be used to decide when new basis of accounting would be appropriate specifies that the transfer or loss of control by an entity of the net assets is an economic event that results in their carrying values no longer being relevant, and the financial statement users rely on fair values to evaluate performance. With phase one of the business combinations project still under way, not even a tentative timetable has been set for completion of the new project.

Derivatives and Hedging

The FASB has released a publication that combines in one document the current guidance for derivative instruments and hedging activities. It contains a version of SFAS No. 133, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, that incorporates the amendments contained in SFAS Nos. 137 and 138. Statement 137 deferred the effective date of Statement 133, while Statement 138 amended Statement 133 by addressing a limited number of issues. The publication also will include the full text of issues reviewed by the Derivatives Implementation Group (DIG) and cleared by the FASB before September 25, 2000. The DIG is charged with deliberating issues related to the implementation of Statement 133. The publication can be obtained through the FASB Order Department at (800) 748-0659.

Commenting on the complex accounting in a meeting with the Financial Accounting Standards Advisory Council (FASAC), SEC Deputy Chief Accountant Jackson Day indicated that the SEC staff expects to be flexible on enforcing adherence to the new derivatives and hedging rules as most companies begin to adopt the new standard. However, they will not accept reporting practices that are blatantly in conflict with the rules. Day also indicated that the SEC staff would not look favorably on a company's efforts to place specific issues on the DIGs agenda when the only apparent reason for doing so is to avoid specific requirements of the new standard.

In a related development, the Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 92, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*, to assist auditors plan and perform auditing procedures related to derivative instruments, hedging activities, and investments in securities. The new standard, which supersedes SAS No. 81, *Auditing Investments*, is available from the AICPA (888-777-7077).

Issuance of FASB 140

In September 2000, the FASB issued SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, replacing SFAS No. 125, issued in June 1996. The new standard retains most of the provisions of Statement 125, but clarifies criteria and expands guidance for determining whether the transferor of financial assets has relinquished control of the assets and the transfer is therefore accounted for as a sale. It also provides accounting and disclosure guidance with respect to collateral. Although Statement 140 is effective for transfers occurring after March 31, 2001, its disclosure requirements relating to securitization transactions and collateral are effective for fiscal years ending after December 15, 2000. The statement can be obtained through the FASB Order Department at (800) 748-0659.

Liabilities and Equity

The FASB has completed its deliberations for its project that would provide guidance on how to account for financial instruments that have characteristics of both liabilities and equity. An ED of a proposed statement, *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both,* as well as an ED of a proposed amendment to FASB Concepts Statement No. 6, *Elements of Financial Statements*, entitled *Proposed Amendment to FASB Concepts Statement No. 6 to Revise the Definition of Liabilities,* are expected in the fourth quarter of 2000. In a notable tentative decision, the FASB has concluded that non-controlling or minority interests are part of the equity of a consolidated entity. As a result, the FASB staff is considering the implications this stance would have on the computation and display of earnings per share.

The comment period deadline for both EDs will be March 31, 2001, and the effective date will be fiscal years beginning after June 15, 2002. NAREIT plans to form a task force to consider commenting on the proposals. If you are interested in joining, please contact David Taube at (202) 739-9442 or dtaube@nareit.com.

Nontraditional Business Disclosures

A FASB panel studying how financial reports can be improved with more non-traditional information, known as the Business Reporting Research Project, in September 2000 approved for distribution later this year a report that suggests additional disclosures. The goal of the project is to enhance business reporting by encouraging companies to use additional footnote disclosures. The proposed report provides a framework to help companies identify additional disclosures that would benefit communications with investors. It suggests that a company identify what it believes to be its critical success factors and provide relevant disclosures. The report also discusses the current lack of meaningful and useful disclosures related to intangible assets, particularly in light of the emphasis these assets have been given by "New Economy" companies. Examples include workforce training and customer satisfaction.

G4+1 Activities

The G4+1 group of accounting standards boards is comprised of representatives from the standard-setting bodies in Australia, Canada, New Zealand, the U.K., and the U.S., plus the International Accounting Standards Committee (IASC) as observer. An objective of the group is to achieve convergence of financial reporting standards so that the information is more useful to cross-border capital market participants. Special Reports are issued to develop a common understanding of the related issues with the goal of developing international consensus. Below is a summary of G4+1 projects.

Leases Special Report

In July 2000, NAREIT formed a task force to comment on a FASB/G4+1 Special Report titled *Leases: Implementation of a New Approach.* The Report consists of a Position Paper that attempts to develop international consensus for lease accounting. It examines principles and issues that should determine the extent to which lessors and lessees would recognize assets and liabilities and recommends a consistent approach that would require both lessors and lessees to record lease assets and liabilities on the balance sheet at the inception of the lease.

The Task Force's comment letter focused on lessor accounting for land and buildings or investment property. The "new approach" would require lessors to calculate the fair value of each lease contract on an ongoing basis. The Task Force suggested that this would not be practical from a cost-benefit standpoint, as it would result in a huge expense for information that would be of little benefit and at best duplicative. With investors and analysts focusing on cash flow and the fair value of the investment property as a whole, the fair value of individual leases is generally irrelevant. The comment letter also observed that the requirement to calculate the fair value of each lease would be especially inappropriate for companies that already report investment property at fair value under International Accounting Standard No. 40, *Investment Property*.

Although lease accounting is not on the FASB's agenda, the Special Report could provide the FASB with information to review the effectiveness of existing standards and provided the industry an opportunity to forward its views. The Task Force's letter can be found under Accounting Issues in the Members Only section of www.nareit.com.

Accounting for Stock-Based Payments

In connection with its membership on the G4+1 group, in July the FASB issued a Special Report on the accounting treatment for stock-based compensation. Titled *Accounting for Share-Based Payment*, the report concludes that transactions involving shares or share options should be recognized in financial statements at their fair value. With the exception of the FASB, none of the other G4+1 standard setters has extensive guidance on the topic. Each of the standard-setting bodies is publishing the report in their respective jurisdiction as a step toward developing standards for stock-based payment. Although the FASB issued the report to seek comment from constituents, it has no intention of reconsidering its existing standards. Earlier this year, the FASB issued Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, its interpretation of APB Opinion No. 25, *Accounting for Stock Issued to Employees*. The report can be obtained through the FASB Order Department at (800) 748-0659.

Fair Value

The G4+1 group plans to issue a report by the end of October 2000 proposing that all financial instruments be measured and recorded at fair value. Group members will decide whether to float the report as either an invitation to comment or draft rules in their respective jurisdictions.

Other Standards Developments

In July 2000, the FASB's Emerging Issues Task Force reached final consensus on Issue No. 00-12, *Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee.* Two issues were addressed:

(1) For stock-based compensation costs incurred by an investor on behalf of an investee, how (i.e., capitalize or expense) and when the investee and contributing investor should account for the costs.

(2) How other equity method investors in an investee should account for stock-based compensation costs incurred by an investor where no proportionate funding by the other investors occurs on behalf of the investee.

The EITF affirmed its May 2000 tentative decision regarding issue (1) above with the conclusion that a contributing investor should expense stock-based compensation costs granted to employees of an equity method investee as incurred (i.e., in the same period the costs are recognized by the investee) to the extent that the investor's claim on the investee's book value has not been increased. The investee should expense the costs of the stock-based compensation incurred by the investor on its behalf, and a corresponding capital contribution, as the costs are incurred on its behalf. The investor and investee would record the expense in the same amounts and period(s) as if the investor had paid cash to employees of the investee following the guidance in Issue 2 of EITF No. 96-18.

The second issue was concluded in July with

the decision that other (noncontributing) investors should recognize income equal to the amount that their interest in the investee's net book value has increased (i.e., their percentage share of the contributed capital recognized by the investee) as a result of the disproportionate funding of the compensation costs. Further, other investors should recognize their percentage share of earnings or losses in the investee inclusive of any expense recognized by the investee for the stock-based compensation funded on its behalf.

In applying the consensus reached in Issue 00-12, the SEC indicated that investors that are SEC registrants should classify any income or expense in the same income statement caption as the equity in earnings (or losses) of the investee.

In Issue 00-11, *Meeting the Ownership Transfer Requirements of FASB 13, "Accounting for Leases," for Leases of Real Estate,* the EITF is considering the issue of how the requirement in paragraph 7(a) of Statement 13 for the "transfer of ownership" of assets subject to Statement 66 should be interpreted when no statutory title registration exists for the transferred asset. With the issuance of FASB Interpretation No. 43, *Real Estate Sales*, leasing transactions involving integral equipment are now considered to be leases of real estate. Guidance is intended to address the transfer of fixtures without the concurrent transfer of the underlying real property, when such transfers are not subject to either a statutory title registration system or Article 2 of the Uniform Commercial Code (UCC). An example is a building transferred under a sales-type lease when title to the underlying land is not or cannot be transferred to the buyer/lessee.

In May 2000, the EITF reached a tentative conclusion that the guidance set forth in Article 2 of the UCC (or equivalent statutory authority outside the US) for transfers of title should be determinative in assessing whether a lease transfers ownership of property not subject to a title registration system to a lessee by the end of a lease term. The EITF again discussed the issue at its September meeting, at which time it instructed its staff to review whether the tentative consensus would impact other accounting for leases. The issue is expected to be discussed at a future meeting.

Another matter that could be of importance to real estate companies is Issue 00-D, *Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition.* The task force has added this issue to its agenda, but the staff has not yet prepared any material to be reviewed. APB 18, *The Equity Method of Accounting for Investments in Common Stock,* indicates in paragraph 19(i) that an "investor ordinarily should discontinue applying the equity method when the investment (and net advances) is reduced to zero and should not provide for additional losses unless the investor has guaranteed obligations of the investee or is otherwise committed to provide financial support for the investee." The issue, which is expected to be discussed at a future meeting, is how an investor should account for subsequent investment in an investee after the suspension of equity method losses.

NAREIT SFO Workshop

Final arrangements have been made for NAREIT's 2000 Senior Financial Officers (SFO) Workshop (formerly the CFO Workshop) to be held on November 13 and 14 in Chicago, Illinois at the Westin O'Hare. Sponsored by the Big 5 accounting firms and Chatham Financial Corporation, the program will provide an opportunity for corporate members to discuss the methods investors use to value real estate companies; what's new in accounting standards proposals; the SEC's new regulation on fair disclosure; and the integration of back-office technology and the Internet. Registration materials were recently mailed. If you would like to attend and did not receive a brochure, please contact Natalie Williams at (202) 739-9443 or nwilliams@nareit.com.

Any questions about industry accounting and financial reporting practices should be directed to George Yungmann, Vice President, Financial Standards, at (202) 739-9432 or gyungmann@nareit.com, or David Taube, Director, Financial Standards, at (202) 739-9442 or dtaube@nareit.com.