

NAREIT Financial Standards**Update**

NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS®

In this issue:**AICPA page 1**

- AcSEC Votes to Send Proposed Cost Capitalization SOP to the FASB

FASB page 2

- EITF Updates Guidance on Preferred Stock Distributions

IASB page 2

- Seeks Comments on its Proposal Regarding Disposal of Non-current Assets and Presentation of Discontinued Operations

SEC page 3

- Proposes Disclosure Rules Regarding Nominating Committee Functions and Communications Between Security Holders and Boards of Directors

NAREIT page 4

- Facilitates the Internal Audit Forum
- 2003 SFO/IRO Workshop
- 2004 Law & Accounting Conference

AICPA**AcSEC Votes to Send Proposed Cost Capitalization SOP to the FASB**

Over the past several years, NAREIT and its

members have monitored and commented on the development of new rules that would change the accounting for property, plant and equipment (PP&E) under Generally Accepted Accounting Principles (GAAP) for all industries. The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) is currently finalizing the proposed rules and intends to deliver a final proposal to the Financial Accounting Standards Board (FASB) before the end of the year.

As reported in our July 2003 *Financial Standards Update*, we have expressed our industry's concerns over the proposed rule in a letter to Bob Herz, Chairman of FASB. Mark Sever, the Chair of AcSEC, was also copied on this letter. Our letter to the FASB emphasized two main points: (1) the proposed rule will lead to greater, rather than lesser, diversity in practice; and (2) the proposal is at serious odds with the harmonization of U.S. accounting standards with global standards.

At its July 23 meeting in San Francisco, AcSEC continued its discussion of the PP&E proposal. Our "NAREIT letter" to Bob Herz was mentioned on a few occasions and was handed out to everyone present. Even though AcSEC did not openly discuss the letter, several AcSEC members raised some good questions based on the letter. Chief among them:

- Pointing to the last paragraph in our letter, one member of AcSEC asked whether or not the SOP should be re-exposed to the public for further comments. AcSEC decided that the PP&E task force had considered all the original comment letters and that there was no need for re-exposing the document.
- A question was asked whether a move toward component accounting was the right thing to do — a major point in our letter. The response was that AcSEC has justified the movement toward component accounting in the overarching principle that “a replaced asset and a replacement asset should not be recorded on the books at the same time.”

At its September 9 meeting, AcSEC approved the current proposal subject only to minor revisions and positive clearance. The vote was 10 in favor (including the representatives from Deloitte & Touche and Ernst & Young) with five against (including representatives from KPMG and PricewaterhouseCoopers). Since 10 votes are required for sending a proposed rule to the FASB, it is almost certain that the current PP&E proposal will be sent to the FASB for clearance, most likely in November.

We are currently arranging a meeting with the FASB and its staff to discuss our objections to the proposal.

FASB

EITF Updates Guidance on Preferred Stock Distributions

A number of NAREIT member companies have redeemed preferred stock recently. There have been questions raised as to the treatment of the costs of originally issuing these redeemed shares

in the calculation of Net Income per share and FFO per share in the period of redemption. In an announcement at the July 31, 2003 meeting of FASB’s Emerging Issues Task Force (EITF), the SEC staff clarified its position that, “in calculating the excess of (1) fair value of the consideration transferred to the holders of preferred stock over (2) the carrying amount of the preferred stock in the registrant’s balance sheet, the carrying amount of the preferred stock should be reduced by the issuance costs of the preferred stock, regardless of where in the shareholders’ equity section those costs were initially classified on issuance.” Any resulting “excess” is treated similarly to the treatment of preferred stock dividends in the calculation of net income applicable to common shareholders. The EITF endorsed the SEC’s position in its Topic No. D-42, “*The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock.*” Click [HERE](#) to access the EITF rule.

Under the current guidance on reporting FFO, per share calculations should follow GAAP rules for calculating Net Income per share. Click [HERE](#) to access the related NAREIT guidance.

IASB

Seeks Comments on its Proposal Regarding Disposal of Non-current Assets and Presentation of Discontinued Operations

The International Accounting Standards Board (IASB) recently made available an exposure draft of its proposed International Financial Reporting Standard, *Disposal of Non-current Assets and Presentation of Discontinued Operations* (ED 4). Click [HERE](#) to access the exposure draft. The IASB has issued this exposure draft as it considers FASB Statement No. 144, *Accounting*

for the Impairment or Disposal of Long-Lived Assets (SFAS 144) as part of its commitment to the convergence of accounting standards around the world. IASB seeks comments on a number of questions set forth in ED4. Question 8, *Classification as a discontinued operation*, of ED 4 specifically deals with entities that regularly sell and buy operations that would be classified as discontinued operations, resulting in discontinued operations being presented every year. The question further acknowledges that this would “lead to the comparatives being restated every year.” The exposure draft asks whether this accounting is appropriate and whether the criteria should be modified so that a discontinued operation shall be a separate major line of business or geographical area of operation, even though this would not converge with SFAS 144. Comments are due October 24, 2003.

In December 2001 NAREIT petitioned the FASB to modify SFAS 144 in a way that would avoid the issue of regularly having to revise previously reported income from operations by real estate companies that regularly dispose of properties. Our letter to the FASB requesting the modification is available by clicking [HERE](#). As a result of the FASB refusing to make such a modification, NAREIT clarified the definition of FFO to neutralize the impact of SFAS 144 on FFO reporting. If the IASB were to issue a final standard that would respond to this issue as described in Question 8, there is a possibility that the FASB would consider modifying SFAS 144 in the future in order to converge with international standards.

NAREIT has established a task force to consider ED 4 and develop a comment letter to the IASB. We are also contacting international organizations

and urging them to comment on ED 4 in support of NAREIT views. If you would like to participate on this task force, please contact Gaurav Agarwal at gagarwal@nareit.com by October 3, 2003. Further, we ask that your company issue a comment letter to the IASB supporting NAREIT’s views.

SEC

Proposes Disclosure Rules Regarding Nominating Committee Functions and Communications Between Security Holders and Boards of Directors

On August 8, 2003, the SEC proposed new disclosure requirements and amendments to existing disclosure requirements to enhance the transparency of the operation of boards of directors. Specifically, the SEC proposed enhancements to existing disclosure requirements regarding the operation of board nominating committees and a new disclosure requirement concerning the means, if any, by which security holders may communicate with members of the board of directors. These proposed disclosure requirements would not mandate any particular action by a company or its board of directors; rather, the proposals are intended to make more transparent to security holders the operation of the boards of directors of the companies in which they invest.

The proposals would call for important additional information regarding a company’s process of nominating directors, including:

- whether a company has a separate nominating committee and, if not, the reasons why it does not and who determines nominees for director;
- whether members of the nominating

- committee satisfy independence requirements;
- a company's process for identifying and evaluating candidates to be nominated as directors;
 - whether a company pays any third party a fee to assist in the process of identifying and evaluating candidates;
 - minimum qualifications and standards that a company seeks for director nominees;
 - whether a company considers candidates for director nominees put forward by shareholders and, if so, its process for considering such candidates; and
 - whether a company has rejected candidates put forward by large long-term institutional shareholders or groups of shareholders.

The proposals also would call for important new information regarding shareholder communications with directors, including:

- whether a company has a process for communications by shareholders to directors and, if not, the reasons why it does not;
- the procedures for communications by shareholders with directors;
- whether such communications are screened and, if so, by what process; and
- whether material actions have been taken as a result of shareholder communications in the last fiscal year.

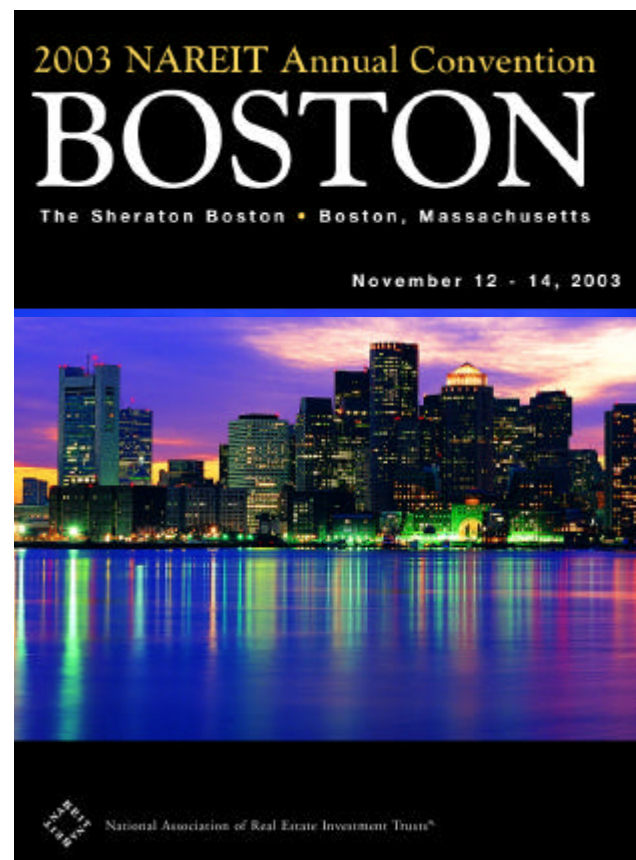
Click [HERE](#) to access the proposed rules.

NAREIT

Facilitates the Internal Audit Forum

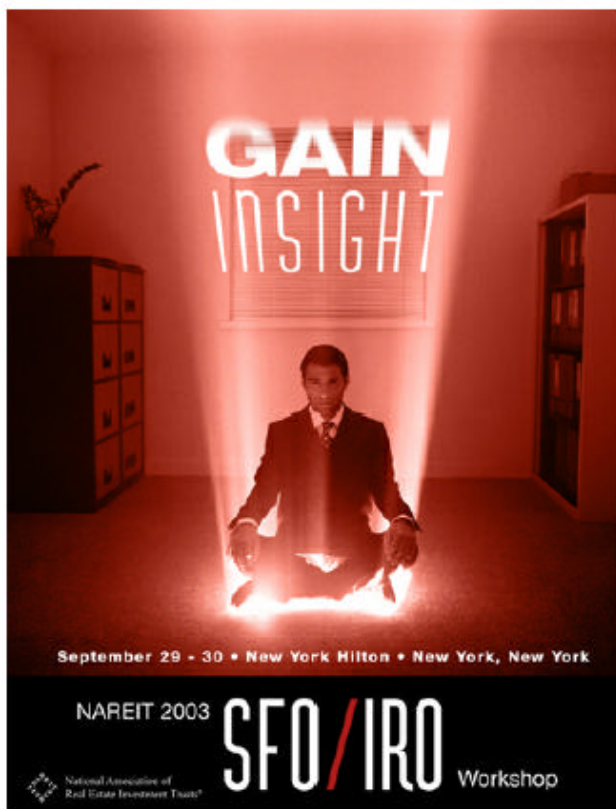
In April 2003, NAREIT conducted a survey of current member company Internal Audit (IA)

functions and plans to comply with the proposed NYSE rules. Based on approximately 50 responses, NAREIT organized a Forum to discuss IA functions and best practices. The Forum was co-hosted by Archstone-Smith and ProLogis in Denver on August 19, 2003 and was attended by nearly 25 Directors of Internal Audit from various member REITs. The IA Directors discussed a variety of topics, including the roles and responsibilities of their respective IA functions; compliance with the Sarbanes-Oxley Act of 2002; conducting risk assessments; best practices for starting an IA function and relationships with the external auditors.



2003 SFO/IRO Workshop

The 2003 SFO/IRO Workshop will be held on September 29 and 30 at the New York Hilton in Manhattan. The program will include three general sessions and eight concurrent sessions, providing a broad range of learning experiences for senior financial officers and investor relations officers. Sessions will cover the new corporate governance and financial reporting environment, the current capital markets and best practices with respect to investor relations. The program is designed exclusively for corporate member financial executives, such as CFOs, Controllers, Directors of Investor Relations, Treasurers, Vice Presidents of Finance and Chief Accounting Officers. Questions about registration should be directed to Karin Soyster at kssoyster@nareit.com.



2004 Law & Accounting Conference

NAREIT's Law & Accounting Conference will be held next year in Hollywood, FL at the Westin Diplomat. It is scheduled a month earlier (March 31-April 2, 2004) to better avoid conflicts with member companies' earnings calls and annual meetings. NAREIT thanks David Brandon from KPMG, Alex Rubin from Merrill Lynch, Dawn Severt from Gables Residential, and Bruce Strohm from Equity Residential for serving as Program Directors. We encourage you to provide us with any topical programming ideas by mid-October 2003.

National Association of Real Estate Investment Trusts

Steven A. Wechsler
President and CEO

Financial Standards/SEC Team

Tony M. Edwards
Senior Vice President and General Counsel
(202) 739-9408
tedwards@nareit.com

George L. Yungmann
Vice President, Financial Standards
(202) 739-9432
gyungmann@nareit.com

Robert R. Cohen
National Policy Counsel
(202) 739-9415
rcohen@nareit.com

Gaurav Agarwal
Director, Financial Standards
(202) 739-9442
gagarwal@nareit.com