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NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

Letter of Comment No: 132
File Reference: 1125-001
Date Received: 1/15/03

VIA E-MAIL

January 9, 2003

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Re: Proposal for a Principles-Based Approach to U.S. Standard Setting (File No. 1125-001)

Dear Ms. Bielstein:

The National Association of Real Estate Investment Trusts® ("NAREIT®") welcomes this opportunity to respond to the request for comments from the Financial Accounting Standards Board ("FASB") on the proposal contained in File No. 1125-001, dated October 25, 2001. 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 own, operate, and finance income-producing real estate, as well as those firms and individuals who advise, study and service those businesses.

NAREIT commends the FASB's efforts to continue to develop high-quality accounting standards that improve the transparency, usefulness and credibility of financial reporting. In particular, we support efforts to consider the feasibility of adopting a principles-based approach to standard setting. Further, we are pleased that the proposed rules will attempt to bring more convergence in the U.S. standards and the International Accounting Standards.

We agree that considering a move toward a principles-based approach to standard setting is a worthy project. We are open to the conclusion that principles-based standards could enable financial statement preparers and auditors to focus on the substance of transactions and reflect that substance in financial statements. In addition, we agree that a principles-based approach to accounting standards possibly could limit financial engineering "around the rules."

♦ ♦ ♦

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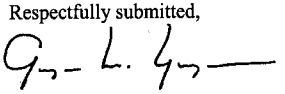
At the same time, we believe that adopting a principles-based approach to standards and the increased judgment required in their application could increase the inconsistency and lack of comparability in financial reports. This could result from divergent views of preparers and auditors on the most appropriate accounting for similar fact patterns. This lack of uniformity could be counterproductive to investors and analysts as they attempt to allocate capital among competing alternatives. Given this concern, we believe that principles-based standards would require some degree of implementation guidance in order to limit the potential inconsistency in reporting. We do not believe that the new principles-based paradigm should mirror the extreme absence of rules characteristic of many international accounting standards.

In addition, we are concerned that regulators may not fully accept different conclusions with respect to accounting for similar transactions and would urge the FASB to continue its dialogue with regulators on this issue. If regulators continue to insist on similar accounting conclusions for similar transactions and do not provide companies and auditors more flexibility to reach different conclusions under a principled-based system, we recommend that the FASB not move toward principles-based accounting standards and global standards harmonization.

In terms of transitioning to the new approach, we encourage the Board to focus initially on new standards, prior to addressing existing literature.

NAREIT thanks the Board for this opportunity to comment on the Proposal. Please contact Gaurav Agarwal, NAREIT's Director of Financial Standards, at (202) 739-9442 or me at (202) 739-9432 if you would like to discuss our comments.

Respectfully submitted,



George Yungmann
Vice President, Financial Standards