



May 24, 1999

Mr. Timothy Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
File Reference 194-B
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No: 58
File Reference: 1082-194R
Date Received: 5/26/99

Re: Proposed Statement of Financial Accounting Standards Consolidated Financial Statements: Purpose and Policy

Dear Mr. Lucas,

The National Association of Real Estate Companies (The Association) is comprised of representatives from companies engaged in a broad range of real estate activities as well as independent accountants, lenders and others associated with the real estate business. One of the major objectives of our Association is to define and promote the use of sound accounting and financial reporting principles and practices that reflect the economic realities of the real estate business. The Association has actively participated in accounting standard setting since 1978. We are writing in regard to the exposure draft on "Consolidated Financial Statements: Purpose and Policy".

We support the Board's efforts toward enhancing the usefulness of consolidated financial statements. Some of our members strongly support standards that would provide for consolidation of most entities now reported using the equity method.

We agree with the Board's conclusion that a parent should effectively control an affiliated entity as a condition of consolidation. At the same time, we do not agree that control should be the only condition required for consolidation. We strongly believe that, in addition to "control", the parent company must have more than a nominal economic interest in the financial results of the affiliate. The level of the parent's economic interest in the residual equity results of the affiliate should be at least 10%. Where the parent does not have this minimal level of economic interest, we believe consolidation results in a severe overstatement of the consolidated assets, liabilities, revenues, expenses and cash flows. This result will not provide for a faithful representation of these consolidated financial statement elements. Therefore, we believe these statements will be confusing at best and possibly misleading to users of the parent company's consolidated financial statements.

Proposed Statement of Financial Accounting Standards

May 24, 1999

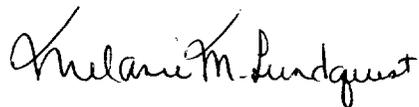
Page 2

In addition, we believe that the proposed standard will result in inconsistent accounting for similar circumstances. For example, where a managing general partner controls operating activities except that the non-managing general partner has the right to approve capital improvements and major tenant leases, we believe that the proposed standard can be interpreted to require or not require consolidation by the managing general partner.

To provide more consistent and more appropriate consolidated reporting, we recommend that, where an entity holds a 20% or more interest in the equity residuals in an affiliated entity and has substantial control over operating activities of the affiliate, consolidation should be required.

We hope that this comment letter is helpful to the Board and its staff.

Very truly yours,

A handwritten signature in cursive script that reads "Melanie M. Lundquist".

Melanie M. Lundquist
Chair, Financial Accounting Standards Committee