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April 20, 2009

Ms. Florence E. Harmon  
Acting Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Subject: File No. S7-27-08

Dear Ms. Harmon:

The National Association of Real Estate Investment Trusts® (NAREIT) welcomes this opportunity to respond to the request for comments from the Securities and Exchange Commission (SEC or Commission) on the proposal contained in Release Nos. 33-8982; 34-58960; File No. S7-27-08 *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers* (the Proposal).

NAREIT is the worldwide representative voice for real estate investment trusts (REITs) and publicly traded real estate companies with an interest in U.S. real estate and capital markets. NAREIT's members are REITs and other businesses throughout the world that own, operate and finance income-producing real estate, as well as those firms and individuals who advise, study and service those businesses. NAREIT is committed to improving the relevance and usefulness of financial reporting and routinely provides input on SEC, Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) proposals.

### Executive Summary

As discussed further in this letter, NAREIT believes that there are far too many open questions/issues regarding the adoption of International Financial Reporting Standards (IFRS) to make a decision at this time as to whether or not to adopt IFRS, either in the near term or eventually. NAREIT strongly recommends the continued convergence of U.S. Generally Accepted Accounting Principles (GAAP) and IFRS rather than the SEC requiring the mandatory adoption of IFRS for U.S. issuers. In converging the two sets of standards, we support a deliberate approach to enable the U.S. to successfully implement accounting standards that are significantly different from current U.S. GAAP. NAREIT believes that convergence would create the "best of both" worlds for all interested parties.



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While NAREIT commends the SEC for its efforts to improve global financial reporting, we believe that there are a number of critical issues that need to be resolved before a well-informed decision can be made as to whether or not to adopt IFRS. NAREIT's concerns include:

1. the proposed timeline for adopting IFRS is unrealistic and does not allow sufficient time for a successful implementation of adopting an entirely new set of accounting standards in the U.S.;
2. the FASB and the IASB (the Boards) may not have achieved the goal of having in place a *comprehensive* set of high-quality accounting standards within the timeframe proposed;
3. the International Accounting Standards Committee (IASC) Foundation and securities regulators may not have established a structure under which the IASC Foundation and, therefore, the IASB may be able to operate independently;
4. the global audit profession, as well as global securities regulators, may not have established structures and mechanisms to ensure a reasonably level degree of adherence to global reporting standards; and,
5. the auditing, legal and enforcement culture in the U.S. would need time to evolve toward the ability to adapt to a principles-based environment.

### **The Convergence of U.S. GAAP and IFRS**

Rather than the SEC requiring U.S. issuers to adopt IFRS, NAREIT strongly recommends a deliberate convergence of U.S. GAAP and IFRS. This approach would provide a rational progression for the FASB and IASB to develop similar standards and for U.S. companies to absorb the impacts of adopting significant changes to accounting standards and adapting to an entirely new environment as a result of utilizing principles-based standards.

A convergence (but not adoption) process would also allow U.S. issuers and financial statement users to continue to rely on the detailed body of accounting literature and processes that have been developed over decades, as long as they would not conflict with converged accounting standards. The ability to rely on detailed accounting literature and established processes would help to counter what NAREIT believes would be the risk of major litigation in an exclusively principles-based system such as the current IFRS.

If U.S. GAAP and IFRS substantially converge, the SEC and regulators in other countries should be comfortable allowing foreign issuers to base their financial reporting on their home accounting standards as the basis for issuing securities in the other country. Such *de facto* convergence would promote cross-border commerce and allow financial statement users to compare companies on a global basis, while still allowing U.S. issuers the ability to continue to rely on the detailed financial reporting guidance that the FASB and the SEC have long provided



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to the financial community. NAREIT believes that such *de facto* convergence would create the “best of both worlds” for all interested parties.

## **NAREIT’s Concerns and Recommendations with Respect to Specifics of the SEC’s Proposed Roadmap**

### *1. The proposed timeline for adopting IFRS is unrealistic.*

NAREIT believes that the proposed schedule for adopting IFRS does not allow enough time to establish a comprehensive set of high-quality standards that would be understood by preparers and users of financial statements. In addition, we do not believe that the Proposal provides sufficient time to complete the extensive number of tasks required to implement a completely new basis of reporting to the many users of financial statements.

In recent months, the accounting profession has disseminated information that describes the wide range of tasks a company must accomplish in order to transition from U.S. GAAP to IFRS. All aspects of accounting must be examined, *e.g.*, accounting procedures, controls, information systems, training and staff, and, if necessary, modified to implement international standards. All contracts must be reviewed, especially financial arrangements, to ensure that current metrics, *e.g.*, credit ratios or industry metrics, would be available or would be replaced by metrics provided under IFRS. Additionally, pro forma financial statements must be prepared to inform investors and other financial statement users of how a company’s earnings and financial position would change under IFRS. Companies also must conduct a thorough review of how IFRS adoption would impact their tax liabilities and exposures.

Further, the Proposal requires improvement in the ability to use interactive data for IFRS reporting. Our experience indicates that most of our member companies are challenged to use eXtensible Business Reporting Language (XBRL) efficiently—even for U.S. GAAP reporting. Preparing XBRL financial statements using the taxonomy provided by the IASC Foundation in 2014 would create additional complexity with respect to the transition to IFRS, especially considering that the IFRS version of XBRL (unlike its U.S. counterpart approved by the SEC) does not adopt industry-specific taxonomies.

Companies would not be able to initiate many of these transition tasks until significant financial standards under the Boards’ Memorandum of Understanding (MOU) are finalized and the SEC makes its final decision in 2011 of whether to adopt IFRS. It is difficult to conceive how a company would simultaneously: 1) complete all of these transition tasks after new significant standards become effective in 2011; 2) develop IFRS-based financial statements for 2012, 2013 and 2014 to file in 2014; 3) provide U.S. GAAP-based financial statements for 2012 and 2013; as well as, 4) prepare the IFRS version of XBRL financial statements.

The Proposal only gives U.S. issuers a one-year notice prior to the required implementation of IFRS in 2012. It is our understanding that many companies would not commit to the implementation of IFRS until the SEC declares its decision to adopt. While NAREIT agrees with the milestone that addresses education and training of IFRS in the U.S., we do not believe that a



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one-year lead time is sufficient to allow U.S. issuers to prepare *accurate* IFRS financial statements and auditors to adequately attest to those financial statements.

Based on these concerns, NAREIT recommends that (assuming that the SEC decides to adopt IFRS against NAREIT's strong recommendation to converge U.S. GAAP and IFRS) the Boards establish a comprehensive set of high-quality accounting standards and that the SEC makes the decision to adopt IFRS *at least* three years before the earliest year required to be presented in the financial statements by first-time U.S. filers of IFRS. If the SEC does not extend the timeframe toward IFRS adoption, then NAREIT suggests that the SEC should require only one year of historical financial information in the financial statements in the initial year of IFRS adoption. NAREIT further recommends that a date for the adoption of IFRS should not be determined until significant progress has been made in achieving the milestones presented by the SEC and addressing the concerns expressed in this comment letter.

2. *The Boards may not have achieved the goal of having in place a comprehensive set of high-quality accounting standards within the timeframe proposed.*

NAREIT is concerned that the Boards will not have a *comprehensive* set of high-quality accounting standards in place within the timeframe proposed in the SEC release. NAREIT members and staff have regularly participated in the FASB and IASB standard setting processes and have recently observed that, to some extent, the scope of certain major projects have been modified so that converged standards can be in place by 2011—the proposed date that the SEC would finalize its decision of whether to mandate IFRS.

An example of this expedience is the deferral of considering lessor accounting within the scope of the joint FASB and IASB Lease Accounting Project. We understand that accounting for leases by lessors may be impacted by the Boards' Revenue Recognition and De-recognition Projects and that to resolve the more important issues with respect to lessee accounting by 2011, it appears that the Boards were virtually forced to defer consideration of lessor accounting.

Another concern is that complete effective guidance for reporting fair value amounts, especially in inactive or dysfunctional markets, may not be in place. Many concerns have been raised with respect to this issue as it relates to financial instruments, but it is also an important issue for the global real estate industry. International Accounting Standard No. 40 *Investment Property* requires that companies report the fair values of investment property in the statement of financial position or in the notes to financial statements. Many real estate industry participants are concerned that current guidance provided by Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* and International Valuation Standards is not adequate for valuing investment property in dysfunctional markets.

Therefore, NAREIT recommends that (assuming that the SEC decides to adopt IFRS against NAREIT's strong recommendation to converge U.S. GAAP and IFRS) the FASB and IASB modify the MOU to include projects such as those previously mentioned to ensure that a *comprehensive* set of high-quality accounting standards is in place, as well as extend the timeframe toward adoption, as discussed above.



3. *The IASC Foundation and securities regulators may not have established a structure under which the IASC Foundation and, therefore, the IASB may be able to operate independently.*

NAREIT strongly supports the SEC's milestone to address the accountability and funding of the IASC Foundation and believes that the independence of the IASC Foundation should be absolutely assured prior to IFRS adoption. The SEC should not only ensure that the Monitoring Group is established and functioning before it decides to adopt IFRS, it should allow sufficient time and have processes in place to determine the effectiveness of the Monitoring Group in ensuring the IASC Foundation's independence.

4. *The global audit profession, as well as global securities regulators, may not have established structures and mechanisms to ensure a reasonably level degree of adherence to global reporting standards.*

Many of our members are concerned that, in spite of the adoption of a single set of high-quality reporting standards by countries around the world, comparable reporting will not be achieved because of the lack of global auditing standards and uniform securities regulation. While we understand that over 100 countries around the world either require or allow financial statements based on IFRS, we also understand that IFRS may be modified by certain countries resulting in jurisdictional IFRS.

We believe that the Commission should evaluate the extent to which jurisdictional IFRS exists and avoid adopting IFRS until the great majority of the major industrial countries around the world adopt IFRS as issued by the IASB. Therefore, NAREIT recommends that the SEC should develop a "memorandum of intent" that would commit the global audit profession and securities regulators toward adherence to a single set of high-quality globally accepted auditing, as well as accounting, standards.

Included in the memorandum of intent would be an agreement among these major countries that they would not establish jurisdictional IFRS in the future. Certainly, if the Commission decides to mandate IFRS adoption, it should not accept company filings at any time in the future that are not prepared on the basis of IFRS promulgated by the IASB.

5. *The auditing, legal and enforcement culture in the U.S. would need time to evolve toward the ability to adapt to a principles-based environment.*

NAREIT members and staff regularly work with real estate organizations around the world. Based on these relationships, we have a sense that there is significantly more flexibility in applying IFRS than U.S. companies have in applying U.S. GAAP. This difference may be caused by the principles-based nature of IFRS, as well as less rigorous regulatory environments surrounding the use of IFRS. Currently, U.S. issuers experience regular debates with auditors and SEC staff over the application of even the U.S. GAAP rules-based standards. In addition, we are aware that the audit profession regularly requests interpretations of guidance from both the SEC staff and the FASB.



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NAREIT questions whether the U.S. auditing profession and SEC staff are able to adapt to a principles-based regime of financial reporting and regulation. In an “IFRS as issued by the IASB” world, how, specifically, would the SEC and FASB participate in the standard setting process? Moreover, if the IASB would become the sole standard setting body, how would the U.S. react to standards that are approved by the majority of the IASB but do not meet or are contrary to the needs of the U.S.? From an audit perspective, would auditors be permitted to rely on their own interpretations of principles-based standards?

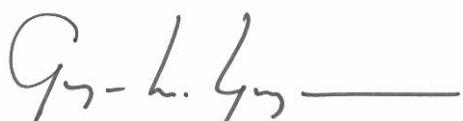
Based on these questions, we suggest that the SEC should clearly define its role in setting new IFRS and provide an understanding of how it will operate inside a principles-based regime. Further, the role of the FASB in the standard setting process upon the adoption of IFRS should be clarified, as well as the SEC’s views on the role of the auditors in attesting financial statements prepared under principles-based standards. Again, NAREIT would prefer for its members to be able to rely on the FASB and the SEC to resolve financial reporting issues rather than having to rely on broad principles enunciated by the IASB.

Beyond concerns regarding the auditing profession, the FASB and the SEC, NAREIT is also concerned that the litigious environment in the U.S. will undermine the effectiveness of financial reporting under principles-based reporting standards. This concern should also be addressed prior to the adoption of IFRS in the U.S., perhaps deferring the mandatory adoption of IFRS until the U.S. Congress enacts legislation that exempts issuers from litigation liability if they act reasonably to rely on the broad principles promulgated by the IASB.

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If the Board or its staff would like to discuss NAREIT’s views as expressed in this comment letter, please do not hesitate to contact George Yungmann at (202) 739-9432 or [gyungmann@nareit.com](mailto:gyungmann@nareit.com), or Sally Glenn at (202) 739-9442 or [sglenn@nareit.com](mailto:sglenn@nareit.com).

Respectfully submitted,



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