

FOREST CITY
ENTERPRISES

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Letter of Comment No: 80
File Reference: 1082-300
Date Received: 12/01/03

December 1, 2003

Director, TA & I - FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 1082-300
Exposure Draft on Consolidation of Variable Interest Entities, a modification of FASB Interpretation No. 46

Dear Director:

Forest City Enterprises, Inc. is a publicly traded real estate corporation headquartered in Cleveland, Ohio with over \$4.0 billion in total real estate assets. We own, develop, acquire and operate commercial and residential real estate across the United States.

We are submitting this letter as a request for the Financial Accounting Standards Board (FASB) to reconsider certain aspects of the proposed Exposure Draft on Consolidation of Variable Interest Entities, a modification of FASB Interpretation No. 46 (Exposure Draft). We are asking the FASB to consider amending the proposed Exposure Draft to include a provision that would modify FIN No. 46 to exclude the consolidation of governmental entities from its scope.

As FIN No. 46 is currently written, guarantees of the values of liabilities that protect holders of senior interests from suffering losses and that will be called on in the event expected losses occur is considered a variable interest. If by issuing a guarantee, a company will absorb a majority of the expected losses and expected residual returns of an entity, it is deemed the primary beneficiary of that entity and will be required to consolidate it under FIN No. 46.

For example, assume a governmental entity, such as a city or district, issues bonds to finance the construction of retail and or residential buildings on land which is owned by a real estate company. The real estate company in turn issues a guarantee on the bonds. As discussed above, under this scenario the real estate company has a variable interest in the

governmental entity because of the guarantee on the bonds. Also assume that the real estate company will also absorb majority of the expected losses and expected residual returns associated with the financing they have guaranteed. The real estate company will be required to consolidate the governmental entity under the current provisions of FIN No. 46.

We strongly disagree that governmental entities should be consolidated by a company because of the following:

1. Consolidating governmental entities will distort the company's financial statements as the entity has nothing to do with the company's business and will be consolidated under the provisions of FIN No. 46 simply because it issued a guarantee associated with the governmental entity.
2. Governmental entities follow governmental accounting standards (GAS), not generally accepted accounting principles (GAAP). As GAS has different reporting deadlines than GAAP, companies will not be able to obtain financial information timely enough to meet accelerated filing deadlines. In addition, it is impractical to estimate the data of the entity as it fluctuates greatly from period to period.
3. A company who issues a guarantee does not necessarily have an equity investment at risk. The guarantee has already been recorded pursuant to FIN No. 45 "Guarantees" and any related payment obligation has also been accrued pursuant to FAS 5 "Contingencies". We feel that combining the assets and other liabilities of the Government entity with our own is misleading to our financial statement readers.

We ask the Board to consider our comments and limit the scope of FIN No. 46 to omit the consolidation of governmental entities. Please contact if you have any questions on our comments outlined above. We appreciate the Board time and consideration of this matter.

Sincerely,

Forest City Enterprises, Inc.

/s/ Janet M. Menko
Director of Accounting Standards and SEC Reporting

/s/ Robyn L. Manganello
Senior Accountant